LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 360** HLS 17RS 997
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 7, 2017 3:07 PM
Author: IVEY
Dept./Agy.: Revenue
Subject: Single Tax Rate On Business Net Income
Analyst: Greg Albrecht

TAX/CORP INCOME OR INCREASE GF RV See Note

Levies a flat tax on business income and provides relative to business entities subject to the tax

Proposed law levies a single 6% or 6.5% tax rate on corporate net income, including partnerships and S-corporations that flow their income through to individuals. This pass-through income would be excluded from tax at the individual level.

Applicable to all tax periods beginning on and after January 1, 2018. The single 6% tax rate is contingent upon adoption of a constitutional amendment proposed in an unspecified House bill of this session, otherwise the 6.5% single tax rate is effective.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The Dept. of Revenue estimates that tax system programming modifications (paper and online filing), revision and promulgation of withholding tables, and testing will involve some $51,000 of staff costs. Additional resources may be required by the department dependent upon the cumulative amount of changes enacted in the session.

REVENUE EXPLANATION

The Dept. of Revenue estimated the impact of this bill under both scenarios that the federal income tax deduction is eliminated and a 6% single tax rate is levied, that the federal income tax deduction is not eliminated and a 6.5% single tax rate is levied. Under both scenarios, partnership and S-corp income was subject to tax at the business entity level, and not subject to tax at the individual level. The analysis was done in two parts, one part recalculating the existing corporate returns filed during FY14, and a second part estimating the bill's tax implications on partnership and S-corp passthrough income.

The recalculation of corporate returns under the two scenarios resulted in a $98 million reduction in tax liabilities at the 6.5% rate and retention of the federal income tax deduction, and a $32 million reduction in tax liabilities at the 6% rate and elimination of the federal income tax deduction.

The analysis of pass-through income resulted in additional tax liabilities of $594 million at the 6.5% rate and retention of the federal income tax deduction, and additional tax liabilities of $548 million at the 6% rate and elimination of the federal income tax deduction. Offsetting the gains was the loss of tax at the individual level; a reduction in tax liabilities of $178 million. The net effect of these changes on pass-through income was additional tax liabilities of $318 million at the 6.5% rate and retention of the federal income tax deduction, and additional tax liabilities of $338 million at the 6% rate and elimination of the federal income tax deduction.

Combining the two components of the analysis results in additional tax liabilities of $220 million at the 6.5% rate and retention of the federal income tax deduction, and additional tax liabilities of $306 million at the 6% rate and elimination of the federal income tax deduction. Changes to quarterly declarations will likely result in some revenue gains during FY18.

Corporate income tax is particularly volatile, and estimates based on any one year of returns is not likely to be indicative of liabilities and collections in any subsequent year. In addition, a number of assumptions had to be made in order to make a rough estimate of the tax implications for pass-through income, and insufficient data meant that pass-through income to non-resident individuals could not be considered.

Senate Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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