

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

Date: June 3, 2017 9:30 AM	Author: IVEY
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Taxation of Business Net Income	

TAX/CORP INCOME RE SEE FISC NOTE GF RV Page 1 of 1
 Levies a flat tax on business income and provides relative to business entities subject to the tax

Proposed law imposes a flat 6.5% tax rate on corporate net income rather than the current five-tiered rate and bracket structure, and removes the deduction for federal income taxes paid by corporations.

Applicable to all tax periods beginning on and after January 1, 2018.

Contingent upon adoption of a constitutional amendment proposed in House Bill 356 of this session (eliminates required federal income tax deduction for corporations), as well as enactment of House Bill 119 of this session (transparency website), and adoption of HCR 4 of this session (reduction of expenditure limit).

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$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.	SEE BELOW					
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$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 Department of Revenue recalculated income tax liabilities of 2015 tax year returns under a 6.5% flat tax rate and the elimination of federal tax deductibility, generating \$2 million lower aggregate tax liabilities than under the current five-tiered rate and bracket structure. However, the bill is contingent upon adoption of a constitutional amendment (in HB 356) eliminating the requirement for the deductibility of federal taxes paid for corporate tax filers, and the estimate above assumes that amendment is adopted, and that the other two contingencies (HB 119 and HCR 4) are also satisfied.

These liability changes would be realized over a roughly three year period starting in FY18, with changes to quarterly declarations possible during the latter half of FY18. Given the small aggregate tax liability change relative to the total liabilities and the volatility of those liabilities from year to year, this is essentially a revenue neutral result.

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. This is evidenced by the fact that this same proposal was calculated using 2014 returns, and resulted in a positive \$30 million change in aggregate tax liabilities.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 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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