



**LEGISLATIVE FISCAL OFFICE  
Fiscal Note**

Fiscal Note On: **HB 520** HLS 21RS 218  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> April 19, 2021 6:11 PM	<b>Author:</b> NELSON
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Phase Out The Corporate Franchise Tax	

TAX/TAXATION OR DECREASE GF RV See Note Page 1 of 1  
 Phases-out the corporation income and franchise taxes and reduces the amount of exemptions, deductions, and credits that may be claimed to reduce corporate income and franchise tax liability

Proposed law phases down the corporate franchise tax, evenly over a four year period beginning with tax year 2023. The bill also phases down the utilization of exemptions, deductions, and credits applicable to the corporate franchise tax evenly over four years, as well.

Effective for tax periods beginning on and after January 1, 2023.

Contingent upon adoption of a constitutional amendment contained in House Bill # of this session.

<b>EXPENDITURES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$87,000	\$0	\$0	\$0	\$0	<b>\$87,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$87,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$87,000</b>

<b>REVENUES</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	(\$14,000,000)	(\$44,000,000)	(\$75,000,000)	(\$106,000,000)	<b>(\$239,000,000)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>(\$14,000,000)</b>	<b>(\$44,000,000)</b>	<b>(\$75,000,000)</b>	<b>(\$106,000,000)</b>	<b>(\$239,000,000)</b>

**EXPENDITURE EXPLANATION**

Administrative expenses to transition out of the individual income tax has not been determined.


**REVENUE EXPLANATION**

A rough guide to the amount of corporate franchise tax that would ultimately be foregone might be reflected in one-quarter of the Revenue Estimating Conference (REC) forecasts of the combined corporate income and franchise tax of approximately \$500 million per fiscal year of collections (\$454 million for FY23, \$482 million for FY24, and \$508 million for FY25). The Dept of Revenue typically reports the fiscal year final collections of the franchise tax, after all credits, as one-quarter of the combined total, implying \$125 million of net franchise tax. This is significantly less than estimates of the repeal or phase-out of the franchise tax that do not involve a comparable phase-down of the various credits that can be applied to the tax, as this bill does. Thus, revenue losses under this bill, based on net collections, are less than those of bills based on gross collections (before credits). In addition, these are fiscal year forecasts that reflect multiple tax years of returns in each fiscal year, although the bill begins the tax phase down with the single tax year of 2023.

Specific estimates of the annual revenue losses as the tax is phased out are complicated by the fact that the realization of franchise tax year changes typically occur over a three fiscal year period of transition. The first phase of the bill is a 25% rate reduction (\$31 million) resulting in tax year revenue losses beginning in FY23 at 45% of the tax year effect (\$14 million). The remaining amount of the first tax year phase-down will occur as 95% of the 25% rate cut (\$30 million in FY24), and finally 100% of the first 25% rate cut (\$31 million in FY25). Subsequent phases of the four-year rate reduction and three year transition accumulate the revenue losses from each tax year rate phase down across three fiscal years, until when the four-year phase-down and three-year transition are complete and fiscal year tax loss equates to the tax year tax loss in FY 28.

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}

  
**Christopher A. Keaton**  
**Legislative Fiscal Officer**