



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 3** HLS 243ES 12
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|--|----------------------------------|
| Date: November 6, 2024 10:26 PM | Author: EMERSON |
| Dept./Agy.: Revenue | Analyst: Benjamin Vincent |
| Subject: Corporate Franchise Tax Repeal | |

TAX/CORP FRANCHISE OR -\$574,000,000 RV See Note Page 1 of 2
 Repeals the corporation franchise tax and limits eligibility of certain credits to be claimed against corporation franchise tax (Item #3)

Proposed law entirely repeals Corporate Franchise Tax (CFT), applicable to taxable years beginning on January 1, 2026, and repeals the applicability of certain tax incentives to CFT liabilities. All CFT provisions are repealed, including the automatic rate reduction triggers that are assessed each January in current law.

| EXPENDITURES | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 5 -YEAR TOTAL |
|---------------------|------------|-----------------|------------|------------|------------|-----------------|
| State Gen. Fd. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Agy. Self-Gen. | \$0 | \$80,000 | \$0 | \$0 | \$0 | \$80,000 |
| 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 | \$80,000 | \$0 | \$0 | \$0 | \$80,000 |

| REVENUES | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 5 -YEAR TOTAL |
|---------------------|------------|------------------------|------------------------|------------------------|------------------------|--------------------------|
| State Gen. Fd. | \$0 | (\$6,000,000) | (\$23,000,000) | (\$41,000,000) | (\$59,000,000) | (\$129,000,000) |
| Agy. Self-Gen. | \$0 | (\$2,000,000) | (\$5,000,000) | (\$5,000,000) | (\$6,000,000) | (\$18,000,000) |
| Ded./Other | \$0 | (\$168,000,000) | (\$502,000,000) | (\$528,000,000) | (\$527,000,000) | (\$1,725,000,000) |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | (\$176,000,000) | (\$530,000,000) | (\$574,000,000) | (\$592,000,000) | (\$1,872,000,000) |

EXPENDITURE EXPLANATION

LDR reports an anticipated one-time expenditure increase amounting to approximately \$80,000 for system design, development, specification, and testing to accommodate changes to the combined corporate tax return. Any such increase would come out of SGR collections, as reflected in the table above. Any such expenditure increases will serve to mechanically reduce net receipts (SGF) by a like amount. LFO assumes that these expenditures would impact FY26.

REVENUE EXPLANATION

The net fiscal impact of this proposal can be approximated by the combined impact on the items discussed below: net CFT liability, likely migration of nonrefundable credits to other revenue sources, existing carryforwards and credits that are likely to impact cash collections in FY 25, FY 26 and/or FY 27, and reduced monies deposited to the Revenue Stabilization Trust Fund (RSTF), which in turn will reduce SGF interest revenue.

For purposes of this fiscal note, LFO assumes that future year collections approximate the collections observed in the tax return data for the year used in the construction of this analysis (see Page 2 for further detail). Such collections imply that under proposed law - considered in isolation and not in conjunction with any other proposed laws in the 2024 3rd Extraordinary Session - total CIFT collections would remain above the \$600 million threshold, such that resulting declines in CIFT collections would not impact SGF revenues, instead reducing collections that would otherwise accrue to the Revenue Stabilization Trust Fund (RSTF).

Overall net impacts of the bill are reflected in the table above. A brief discussion of major components is below.

Impact on Net Franchise Tax Liabilities of Full Immediate Repeal:

The corporate franchise tax liability change was modeled using returns reflecting 2022 tax liabilities. Recent historical filing patterns for this tax indicate that 28% of payments due are collected in the year they are incurred, an additional 65% are collected in the subsequent year, and the remaining 7% are typically collected in the third year. The full (year 3) effect resulting from full repeal is an estimated \$533 million in reduced CFT net liability. Typical filing patterns imply that this would result in a CIFT revenue reduction of \$170 million in FY26, followed by a reduction of \$507 million in FY27, and \$533 million in FY28 and subsequent years.

Impact on RSTF & Resulting Decline in SGF Interest Revenues

Additionally, interest earnings on the RSTF do accrue to SGF, so a significantly-reduced annual deposit to the trust fund would result in a material reduction in SGF revenue. **(continued on Page 2)**

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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CONTINUED EXPLANATION from page one:
REVENUE IMPACTS (cont)

Impact on RSTF & Resulting Decline in SGF Interest Revenues (continued)

A SGF reduction of approximately \$18 million would result for each additional year after FY 28, using recently observed rates of earnings, for every \$533 million that would not be deposited in RSTF. This is reflected as a SGF loss of \$6 million in FY 26 (3.3% * \$170 million), \$23 million in FY 27 (\$6 million, plus 3.3% * \$507 million), \$41 million in FY 28 (\$23 million, plus 3.3% * \$533 million), \$59 million in FY 29, and so on.

Impact on LDR Self-Generated Revenues

Proposed law reduces certain collections that LDR is currently permitted to retain 1% of as SGR, reflected in the table above as reduced agency self-generated revenues.

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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