LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office
Fiscal Notes

Fiscal Note On: **SB 269** SLS 15RS 466
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: May 19, 2015 6:12 PM **Author:** ADLEY
Dept./Agy.: Revenue
Subject: Corporate Taxation Combined Reporting **Analyst:** Greg Albrecht

TAX/TAXATION EG INCREASE GF RV See Note

Requires corporations subject to Louisiana income or franchise tax which have either corporate gross revenues everywhere of $8 billion or $8 million of assets everywhere to file consolidated or combined returns. (gov sig)

Current law allows separate entity accounting for corporate taxation.

Proposed law requires combined returns to be filed by any corporation which has either $8 billion of combined gross revenue or $8 million of combined assets. Provides for the determination of taxable income or loss in the consolidated return and the share to be apportioned to the the state. Firms affected by this bill will be allowed a net operating loss deduction (NOL) that is no more than 50% of their tax liability, for any return filed on or after July 1, 2015, regardless of the tax year to which the return relates.

Effective for corporate income tax years beginning on and after January 1, 2015, and corporate franchise tax years beginning on and after January 1, 2016.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	2015-16	2016-17	2017-18	2018-19	2019-20	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 Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes, and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided. However, this is a major change to corporate taxation that will likely require additional expenses associated with staff/auditor training, taxpayer outreach and support to facilitate compliance.

REVENUE EXPLANATION

NOL Limitation: The bill limits the net operating loss deduction (NOL) of affected firms to no more than 50% of the tax liability for the taxable year, for any return filed on or after July 1, 2015, regardless of the tax year to which the return relates. The Department of Revenue recalculated 2013 tax year returns for firms affected by this bill, and determined that the bill's NOL limitation would result in $31 million higher tax liabilities. This provisions would likely result in at least that much additional net tax receipts in FY16, and likely more since the NOL limitation applies to any return filed after July 1, 2015 regardless of which tax year it relates to, and there will be returns filed in FY16 relating to several tax years. This revenue gain would likely differ under combined reporting conditions, but is still likely to be material.

Combined Reporting: For certain size corporations, the bill mandates a different approach to state corporate taxation than has historically been the case for most firms operating in the state the effects of which can not be reasonably quantified in advance. The Department of Revenue examined the estimates of such a change in two states that shifted to combined reporting relatively recently (Massachusetts enacted 2008 and Wisconsin enacted 2009), as well as 2009 report by the Center on Budget and Policy Priorities that looked across multiple states. Both states expected increases in tax collections in the range of 14%, and the multi-state report indicated an increase range of 10% - 25%. However, all three examinations provide little basis for an estimate of dollar effect of such a change in Louisiana, as to either magnitude or timing. Both individual states utilized fairly dated information at the time of their estimates, and experienced various other simultaneous events; such as an across the board tax rate cut in Massachusetts and the effects of the 08/09 national economic recession and its aftermath. In addition, wide differences in industry structure across states (for example, Louisiana is much more oil & gas concentrated than many other states) make extrapolations from other states highly uncertain, and Louisiana has its own distorting event of successive tax amnesties.

It is likely though that some net increase in tax collections would occur. Separate entity accounting facilitates tax strategies that, for tax purposes, essentially shift income out of the state and shift costs into the state, effectively reducing taxable net income attributable to the state. Combined reporting works against those strategies; although, nothing eliminates those strategies altogether. The magnitude and timing of any net increase in collections is highly uncertain. The bill is effective for tax periods that could effect collections in FY16, but many firms typically file under extension which would place any revenue effects into FY17, and such a change in overall taxing approach might encourage more extension filing. FY16 and even FY17 would likely be transition years as firms adjust to complying with a different taxing approach in the state.

While aggregate net collections are likely to increase, it is also likely that some firms will experience decreases in tax liabilities and others increases relative to what they would experience under the current separate entity approach. These differences across firms and

Senate / Dual Referral Rules / House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}

☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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