LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 50** HLS 161ES 97
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date:
Author: ABRAMSON
Dept./Agy.: Revenue
Subject: Corporate Income and Franchise Tax
Analyst: Greg Albrecht

TAX/CORP INCOME OR DECREASE GF RV See Note
Provides relative to the state taxation of corporations (Items #3 and 19)

The bill makes three significant changes to corporate taxation: (1) imposes a flat 5% tax rate on net income rather than the current five-tiered rate and bracket structure, (2) phases out the corporate franchise tax evenly over five years and, (3) effectively converts refundable credits to nonrefundable status with a five-year carry-foward, except the credit for property taxes paid on inventory.

Effective January 1, 2017.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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
There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION
While specific dollar estimates by fiscal year of the bill's effects can not have a high degree of confidence associated with them, the bill makes substantial changes to corporate taxation that result in substantial state revenue losses.

The Department of Revenue recalculated tax table income tax liabilities of returns filed in FY14 under the 5% flat rate of the bill, generating $96.4 million of lower tax liability than under the current five-tiered rate and bracket structure. Revenue losses could begin being realized as early as the April 2017 declaration payments, and through greater refund claims on 2016 tax year return filings as taxpayers carried forward less over payments for application against future liabilities.

Potential net revenue gains from converting refundable credits to nonrefundable status are fairly small. Approximately 90% of credit refunds in FY14 ($477 million) were due to the inventory credit ($427 million), which retains its refundable status in the bill. The remaining $50 million of credits represents potential net revenue gain to the state offsetting the income tax loss in that taxpayer liabilities may not be sufficient to exhaust these credits, effectively making the carry-foward amounts a net state revenue gain. Of this $50 million balance, $37 million is due to property tax on OCS vessels and landline telecom property, Citizens Insurance Assessments, and School Readiness credits. Based on this analysis, net corporate income tax losses would be some $46 million on an annual basis.

The phase-out of corporate franchise tax over a five-year period also reduces state revenue, but without much refundable tax credit conversion to provide a positive offset because refundable credits are already typically charged against the income tax component of the joint income and franchise tax return. The Department's recalculation of franchise tax returns filed in FY14 indicated some $320 million of tax liability before credits ($286 million after nonrefundable credits) that would be phased out. At a minimum the after credit amount would be lost to state revenue as the tax phases out. Since the tax is paid in advance FY17 revenue losses could be as much as $57 million, but filings under extension are typical with corporate returns and some portion of that loss likely occurs in FY18, plus the 40% phase-out share for the next tax year. Revenue losses accumulate each year to the $300 million range plus the corporate income tax loss discussed above.

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- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 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(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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