LEGISLATIVE FISCAL OFFICE
Fiscal Note

ACT 8

Fiscal Note On: **HB 29** HLS 161ES 65

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: March 14, 2016 12:17 PM

Author: LEGER

Dept./Agy.: Revenue

Subject: Corporate Income and Franchise Tax

Analyst: Greg Albrecht

TAX/CORP INCOME EN +$3,300,000 GF RV See Note

Reduces rates for purposes of calculating corporation income tax liability (Item #3)

The bill imposes a flat 6.5% tax rate on corporate net income rather than the current five-tiered rate and bracket structure.

Effective for all tax years beginning on or after January 1, 2017, if the proposed amendment to Article VII of the Constitution contained in the Act which originated as HB 31 of the 2016 First E. S. is adopted at the statewide election to be held on November 8, 2016.

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.	$0	$3,300,000	$28,500,000	$30,000,000	$30,000,000	**$91,800,000**
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**	**$3,300,000**	**$28,500,000**	**$30,000,000**	**$30,000,000**	**$91,800,000**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Department of Revenue recalculated tax table income tax liabilities of returns filed in FY14 under a 6.5% flat tax rate, generating $86 million of lower tax liability than under the current five-tiered rate and bracket structure. However, the bill is contingent upon adoption of a constitutional amendment (in HB 31) eliminating the requirement for the deductibility of federal taxes paid for corporate tax filers. Also, contingent upon that adoption is a bill (HB 95) that statutorily implements the elimination of federal deductibility.

Thus, the flat tax rate provided by this bill will be applied to corporate taxable income without a federal income tax deduction. Tax liabilities for the simulation of returns received in FY14 under these combined conditions results in some $30 million more tax liability than under the current law corporate rate and base structure. These liability increases would be realized over a roughly three year period starting in FY18.

It should be noted that this estimate is based on a recalculation of a single year's tax returns. The fundamental volatility of corporate tax make it unlikely that a single year's result is indicative of other particular years.

Senate | Dual Referral Rules | House

- [ ] 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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