

**LEGISLATIVE FISCAL OFFICE  
Fiscal Note**

Fiscal Note On: **HB 208** HLS 21RS 213  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> April 18, 2021 10:29 AM	<b>Author:</b> DEVILLIER
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Corporate Income Tax - Remove Federal Tax Paid Deduction	

TAX/CORP INCOME OR +\$89,700,000 GF RV See Note Page 1 of 1  
 Repeals the income tax deduction for federal income taxes paid for purposes of calculating corporation income tax

Present law provides a deduction for federal income taxes paid for corporate income tax.

Proposed law eliminates the deduction.

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.

EXPENDITURES	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

REVENUES	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$16,200,000	\$80,700,000	\$89,700,000	\$89,700,000	<b>\$276,300,000</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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$16,200,000</b>	<b>\$80,700,000</b>	<b>\$89,700,000</b>	<b>\$89,700,000</b>	<b>\$276,300,000</b>

**EXPENDITURE EXPLANATION**

Tax system changes will have to be made to incorporate the elimination of the deduction from the tax processing system. These changes are typically estimated as several thousands of dollars of staff time for design, modification, and testing.

**REVENUE EXPLANATION**


The current estimate of the corporate income tax liability change resulting from the elimination of the deduction for federal taxes paid is \$89.7 million, based on a recalculation of returns for the 2018 tax year by the Department of Revenue (this is the first tax year exhibiting the federal tax reductions enacted at the end of 2017).

The fiscal year receipts effect of this liability change is complicated by the fact that in any particular fiscal year returns are filed for a number of prior tax years. Based on the filing pattern of the 2018 tax year returns, within a fiscal year, 18% of the corporate income tax returns for a particular tax year (2023 in this case) will be filed within the immediate fiscal year (2023 estimated payments), 72% within the second fiscal year (2024 returns & extensions), and 10% within the third fiscal year (2025 returns & extensions). Incorporating these factors, results in a first fiscal year revenue increase of \$16.2M (\$89.7M x 18%). The second fiscal year increase will include a 72% filing factor applied to the first year's liability increase plus the second year's liability increase and a 18% filing factor, resulting in \$80.7M (\$89.7M x 90%). The third fiscal year increase will include a 10% filing factor applied to the first year's liability increase plus a 72% filing factor applied to the second year's liability increase plus the third year's liability increase with a 10% filing factor, resulting in an \$89.7M (\$89.7M x 100%) revenue increase. This pattern accumulates the tax year liability increases realized in fiscal years over a three year period until the full amount of corporate income tax liability change is reflected in fiscal year revenue collections each year.

Actual annual revenue gains can differ materially from these estimates due to the inherent volatility of the corporate tax base, and the ability of corporate tax filers to engage in tax planning. Thus, there is considerable uncertainty as to the level of annual tax liability and tax receipt changes resulting from the bill.

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**