

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 357** HLS 17RS 404  
 Bill Text Version: **ENGROSSED**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 15, 2017 5:02 PM	<b>Author:</b> IVEY
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Income Tax - Federal Income Tax Deduction	

TAX/CORP INCOME EG SEE FISC NOTE GF RV Page 1 of 1  
 Repeals the state income tax deduction for federal income taxes paid for purposes of calculating corporate income tax

Present law requires that federal income taxes paid shall be allowed as a deductible item in computing state income taxes for both individuals and corporations.

Proposed law removes the requirement for this deduction for corporate income tax.

Applicable for all tax periods beginning on and after January 1, 2018, but contingent upon adoption of a constitutional amendment proposed in House Bill 356 of this session, as well as enactment of House Bills 119, 355, and 358 of this session.

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
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>

  

<b>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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>						

**EXPENDITURE EXPLANATION**

Tax system changes will have to be made to provide for the repeal of tax liability. These changes are typically estimated as several tens of thousands of dollars of staff time for design, modification, and testing (\$40,000 in this case). Additional resources may be needed by the Dept. depending in the cumulative number of changes enacted.

**REVENUE EXPLANATION**

The Dept. of Revenue estimated the revenue effect of this bill this bill under the assumptions that a constitutional amendment is adopted allowing the elimination of the federal income tax deduction (HB 356), and that a single rate of 6% is applied to the expanded corporate income tax base (HB 360).

The Dept. recalculated 2014 tax returns under the current law provisions of a net operating loss deduction limited to 72% of net income, and the elimination for the deduction for federal income taxes paid. The resulting change in tax liabilities was a reduction of \$36 million. However, this bill is contingent upon enactment of HB 355 which changes the limitations on the use of net operating loss deductions, as well as makes various other changes to corporate/business taxation. Thus, the ultimate effect of this bill depends on the final changes enacted by HB 355.

Corporate income tax is particularly volatile, and estimates based on any one tax year may not be indicative of likely collections in any subsequent year. Actual tax receipt changes are further complicated by the rate at which taxpayers may reduce their quarterly estimated payments (some losses could occur in FY19), and by the pattern of filings in fiscal years from prior tax years. Typically, about a three -year transition occurs before full liability changes are reflected fiscal year collections. Actual tax receipt changes in any particular fiscal year are likely to differ from those estimated above.

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}

*John D. Carpenter*  
**John D. Carpenter**  
**Legislative Fiscal Officer**