



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 364** HLS 23RS 198
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 7, 2023	4:59 PM	Author: BISHOP
Dept./Agy.: Revenue		Analyst: Benjamin Vincent
Subject: Corporate Franchise Tax: Phase-out		

TAX/CORP FRANCHISE OR -\$324,000,000 GF RV See Note Page 1 of 2
 Phases-out the corporate franchise tax over four years

Proposed law phases-in annual reductions of Corporate Franchise (CFT) tax rates to zero over four years beginning in taxable year 2025, and fully eliminating the tax in Tax Year 2028.

Applicable to taxable years beginning January 1, 2025.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0					\$0

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	(\$49,000,000)	(\$125,000,000)	(\$211,000,000)	(\$286,000,000)	(\$319,000,000)	(\$990,000,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	(\$13,000,000)	(\$30,000,000)	(\$43,000,000)
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	(\$49,000,000)	(\$125,000,000)	(\$211,000,000)	(\$299,000,000)	(\$349,000,000)	(\$1,033,000,000)

EXPENDITURE EXPLANATION

LDR reports that implementation of proposed law will require additional expenditures for system modification, development and testing, and tax form modification. The change is estimated at \$51,000 of staff time.

REVENUE EXPLANATION

CFT Liability Impact: Proposed law phases out corporate franchise tax (CFT) over four years. CFT collections are typically spread over an approximately three-year period. LFO anticipates that the CFT liability components of proposed law will begin affecting revenue collections in FY24, based on historical responses of estimated payments to policy changes. The estimated full-year impact of the tax liability component is an annual reduction of about \$176 million. This figure is based on simulating tax liability changes based on returns from tax year 2020, then adjusting the result to scale with anticipated CFT growth up to FY25 (the initial tax year of the bill's applicability).

Historically, roughly 45% of CFT liabilities have been remitted in the year in which they are owed, 50% in the year following, and 5% in the second year following. This effect effectively phases-in part of the annual revenue reduction until it is fully realized in FY27. Any CIFT collections over \$600M accrue to the Revenue Stabilization Fund instead of state general fund.

Overpayments Carryforward Impact: Additionally, LDR reports that approximately \$145 million of existing carryforwards of prior year overpayments with respect to CFT will be due to taxpayers as a refund upon repeal of the CFT, and will be claimed as the tax phases down. The effect of these anticipated claims is reflected in the table above as being split evenly by year.

Tax Credits Impact: To the extent that taxpayers with CFT liabilities also incur income tax liabilities, proposed law would additionally result in credits that would otherwise apply against CFT liability being claimed against income tax liability. This would result in revenues being reduced by an estimated annual \$148 million, following a similar 45/95/100% ramp-up, beginning in FY25.

As combined CIFT revenues that are above \$600 million are dedicated to the Revenue Stabilization Fund, and currently-adopted (current law) REC projections for CIFT are above that threshold beginning in FY27, the revenue impact is reflected in the table above as shared between the state general fund and dedicated funds beginning in FY27. Ultimately, **the full-year impact of the bill will be an annual \$324 million revenue reduction**, that would be realized by FY29. A breakdown of all effects is included on Page 2. **(continued)**

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}

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Chief Economist



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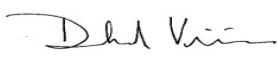
CONTINUED EXPLANATION from page one:

Components contributing to total impacts on Page 1:

FY (\$millions)	24	25	26	27	28
CFT Liability Change	-20	-62	-105	-149	-174
Carryforward of Overpayments	-29	-29	-29	-29	-29
Credits	-0	-34	-77	-121	-146
Total	-49	-125	-211	-299	-349

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