

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 372** HLS 17RS 405
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 25, 2017 3:45 PM	Author: IVEY
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Flat Corporate Income Tax Rate	

TAX/CORP INCOME OR DECREASE GF RV See Note Page 1 of 1
 Establishes a flat tax rate for purposes of calculating corporate income tax liability

Present law levies a five-rate progressive tax on graduated levels of Louisiana corporate taxable income. Rates start at 4% on the first \$25,000 of income, rising to 8% on income in excess of \$200,000 of income.
Proposed law eliminates the progressive rate and bracket structure of current law and levies a flat tax rate of 6.5% on all Louisiana taxable income if the federal income tax deduction is not removed, and a flat rate of 6% if the federal income tax deduction is removed.

Effective for all taxable years beginning on and after January 1, 2018, with the specific flat tax rate levied contingent upon adoption of a constitutional amendment proposed by an unspecified House bill of this session. It is assumed that the referenced proposal eliminates the requirement for a federal income tax deduction in the constitution and that companion statutory measures are also enacted.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total						

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 (\$26,000 in this case). Additional resources may be needed by the Dept. depending in the cumulative number of changes enacted.

REVENUE EXPLANATION

To estimate the potential revenue changes resulting from the bill, the Dept. of Revenue re-computed 2014 corporate tax returns under the two flat tax rates of the bill, and the scenario of no elimination of the federal income tax deduction and the scenario of an elimination of the federal income tax deduction. The resulting tax liability changes were a negative \$122M at the 6.5% rate with retention of the federal income tax deduction, and a negative \$29M at the 6.0% rate and elimination federal income tax deduction. The initial effects of either of these scenarios will be FY19 based on the tax year 2018 effectiveness of the bill and changes to quarterly estimated tax payments.

The effects in particular fiscal years is complicated by the fact that in any particular fiscal year returns are filed for a number of prior tax years. Past filing patterns suggest that within a fiscal year, 11% of returns apply to the immediate tax year, 84% to the preceding tax year, and 5% from earlier tax years.

Actual tax receipt reductions are further complicated by the carry-forward of corporate tax overpayments from prior years, which are still due to the taxpayer even if the tax is reduced. This carry-forward averaged \$387M over the 2012-2014 period. In addition, refundable tax credits and rebate payments charged against the income tax will continue to be refunded and paid. Finally, the rate at which taxpayers will reduce estimated payments (quarterly declarations) may change as a result of the bill's changes. Thus, 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}

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