# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **SB 1** SLS 23RS 37
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

**Date:** May 19, 2023 4:59 PM
**Author:** ALLAIN
**Dept./Agy.:** Revenue
**Subject:** Corporate Franchise Tax: Phase-down & Repeal
**Analyst:** Benjamin Vincent

TAX/FRANCHISE/CORPORATE RE -$329,000,000 GF RV See Note 
Repeals the corporate franchise tax. (1/1/25)

Proposed law phases-in 25% reductions of Corporate Franchise (CFT) tax rates effective for every year following a year in which any monies were deposited into the Revenue Stabilization fund.

Applicable for taxable years beginning January 1, 2025 through December 31, 2031, and effective upon enactment and effectiveness of Senate Bill 6.

| **EXPENDITURES** | **2023-24** | **2024-25** | **2025-26** | **2026-27** | **2027-28** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | INCREASE | INCREASE | INCREASE | INCREASE | INCREASE | |
| 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** | | | | | | |

| **REVENUES** | **2023-24** | **2024-25** | **2025-26** | **2026-27** | **2027-28** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | $0 | $0 | ($211,000,000) | ($286,000,000) | ($319,000,000) | **($816,000,000)** |
| Agy. Self-Gen. | $0 | $0 | $0 | $0 | $0 | **$0** |
| Ded./Other | ($49,000,000) | ($125,000,000) | $0 | $0 | $0 | **($174,000,000)** |
| Federal Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| Local Funds | $0 | $0 | $0 | $0 | $0 | **$0** |
| **Annual Total** | **($49,000,000)** | **($125,000,000)** | **($211,000,000)** | **($286,000,000)** | **($319,000,000)** | **($990,000,000)** |

**EXPENDITURE EXPLANATION**

LDR reports that implementation will require expenditures for system and form modification and testing. The additional required staff time is indeterminable, however typical workloads at the time of year following deposits to the Revenue Stabilization Fund may preclude forms and system updates being completed and taxpayer guidance being issued prior to January 1, 2025. LFO notes implementation issues that are unaddressed by the bill, including LDR notification of fund deposits, and taxpayer notifications of rate changes or Quality Jobs credit reductions associated with SB6.

**REVENUE EXPLANATION**

**CFT Liability Impact:** Proposed law makes 25% reductions to the CFT rate annually until the tax rate is zero, conditional on any monies being deposited into the Revenue Stabilization Fund in the prior year. Such deposits occur when revenues are above a certain threshold for either corporate income & franchise tax or mineral revenues, and are currently projected to occur annually in fiscal years 2024 through 2027. Using REC projections as a baseline, proposed law would thus reduce CFT rates each year beginning in 2025, until the rate is zero in taxable year 2028.
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 each 25% reduction to the tax liability component is an annual reduction of about $181 million.
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.

**Overpayments Carryforward Impact:** 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 FY24 and FY25, the revenue impact is reflected in the table above shifts from dedicated funds to state general fund in FY26. Ultimately, the full-year impact of the bill will be an annual $329 million revenue reduction, that would be realized by FY30. A breakdown of all effects is included on Page 2. **(continued)**

| Senate | Dual Referral Rules | House |
|---|---|---|
| [ ] | 13.5.1 >= $100,000 Annual Fiscal Cost {S & H} | [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S} |
| [x] | 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H} | [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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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 | -21 | -64 | -108 | -153 | -179 |
| Carryforward of Overpayments | -29 | -29 | -29 | -29 | -29 |
| Credits | -0 | -34 | -77 | -121 | -146 |
| **Total** | **-50** | **-127** | **-214** | **-303** | **-354** |

**Discussion: Potential Partial Offset, Due to Contingency on Senate Bill 6**

Proposed law is contingent on passage and effectiveness of Senate Bill 6. SB6 Re-Engrossed provides for a reduction in certain rebates under the Quality Jobs program in the event of a reduction of the CFT rate, which would serve to partially offset the revenue reductions caused by the phase-down of CFT rates to zero.

The offsets in SB6 Re-Engrossed will effectively phase in, and the ultimate timing and magnitude of their effect are very uncertain. For the purposes of discussing potential offsets to proposed law, and under several highly speculative assumptions, LFO anticipates that a full-year offset impact will ultimately amount to approximately 20% of the CFT liability reduction.

This partial offset for the first year's CFT rate reduction of 25% will likely not be realized fully until FY28. The reduction in rebate reductions will continue to phase in at the same time, implying that the full-year offset of 20% for the full CFT elimination may be fully realized in FY31.

These assumptions would result in potential offsets due to combined provisions from proposed law and SB6 as follows:
$0 offset in FY24, $4 million offset in FY25, $8 million in FY26, $10 million in FY27, and $12 million in FY28.

Incorporating the potential impacts of combining proposed law with SB6 Re-Engrossed would result in annual impacts as reflected in the table below.

| FY ($millions) | 24 | 25 | 26 | 27 | 28 |
|---|---|---|---|---|---|
| Potential Net Impact of SB1 & SB6 | -50 | -123 | -206 | -293 | -342 |

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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