

**LEGISLATIVE FISCAL OFFICE  
Fiscal Note**

Fiscal Note On: **SB 9** SLS 23RS 41  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

|                                                          |                                  |
|----------------------------------------------------------|----------------------------------|
| <b>Date:</b> April 27, 2023 6:54 PM                      | <b>Author:</b> FOIL              |
| <b>Dept./Agy.:</b> Revenue                               | <b>Analyst:</b> Benjamin Vincent |
| <b>Subject:</b> Corporate Franchise Tax Exemption: REITs |                                  |

TAX/FRANCHISE/CORPORATE OR DECREASE GF RV See Note Page 1 of 1  
 Exempts certain real estate investment trusts from the corporate franchise tax. (gov sig)

Proposed law excludes certain LLCs filing federally as Real Estate Investment Trusts (REITs) from the definition of "domestic corporation" for purposes of the Corporate Franchise Tax (CFT). Proposed law specifies that 100% of the LLC's shares of common stock must be owned by a tax-exempt organization prior to July 1, 2023 in order to comply with the new definition.

Proposed law applies to franchise taxable periods beginning on January 1, 2024 and after. Effective upon governor's signature.

| <b>EXPENDITURES</b> | <b>2023-24</b> | <b>2024-25</b> | <b>2025-26</b> | <b>2026-27</b> | <b>2027-28</b> | <b>5 -YEAR TOTAL</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd.      | \$0            | \$0            | \$0            | \$0            | \$0            | <b>\$0</b>           |
| Agy. Self-Gen.      | INCREASE       | \$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>REVENUES</b>     | <b>2023-24</b> | <b>2024-25</b> | <b>2025-26</b> | <b>2026-27</b> | <b>2027-28</b> | <b>5 -YEAR TOTAL</b> |
|---------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| State Gen. Fd.      | DECREASE       | DECREASE       | DECREASE       | DECREASE       | DECREASE       |                      |
| 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**

The Department of Revenue is anticipated to incur minor costs in additional staff time to modify and test tax systems utilizing self-generated revenue. The anticipated cost for proposed law has been estimated as \$13,000 of staff time.

**REVENUE EXPLANATION**

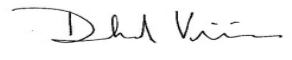
Proposed law excludes certain LLCs filing as REITs for federal income tax purposes from CFT liability, provided the LLC is 100% owned by tax-exempt organizations.

Information on REITs that are owned by such organizations is not available, thus the revenue impact is indeterminable. To the extent that such organizations bear CFT liability in current law, proposed law will reduce state general fund revenues to an indeterminable extent.

For informational purposes, LDR reports that based on 2021 tax return data, 56 LLCs reported filing as an REIT for federal income tax purposes, and in the aggregate these taxpayers paid an FY23 equivalent of \$750,000 in franchise tax. This figure may represent a ceiling of the potential impact of proposed law, as an unknown number of REITs would presumably not be 100% owned by tax-exempt organizations.

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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**Deborah Vivien**  
**Chief Economist**