LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 20** HLS 162ES 18
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: June 14, 2016 11:24 AM
Author: REYNOLDS
Dept./Agy.: Revenue
Subject: Corporate Income Tax Apportionment Calculations
Analyst: Greg Albrecht

TAX/CORP INCOME RE INCREASE GF RV See Note

Provides relative to the apportionment ratio for purposes of computing corporate income tax and provides for the sourcing of sales (Item #44)

Present law: air transportation firms, other transportation firms compute their apportionment ratios as the average of two ratios, the ratio of their Louisiana property to their total property and the ratio of their Louisiana income to their total income. Service enterprises use the ratio of their Louisiana wages to their total wages and the ratio of their Louisiana income to their total income. Oil & gas companies use the average of three ratios, their Louisiana property to their total property used in the production of net apportionable income, their Louisiana income to their total income, and their Louisiana wages to their total wages.

Proposed law will change apportionment calculations for firms in the industries other than oil & gas to a single ratio of their Louisiana income to their total income. Oil & gas firms will use a four factor average (the sales factor is included twice). In addition, the bill provides for the sourcing of sales of services to the state if the taxpayer's market for the sale is in the state. Applicable to tax periods beginning on or after January 1, 2016.

EXPENDITURES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**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						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Department of Revenue estimated the aggregate impact of the change from two factor apportionment to single sales factor by statistically selecting a representative sample of corporate returns in various strata of net income for the 2013 tax year, and recalculating these returns (2,538) on the basis of the 2013 tax law and on the apportionment changes proposed by this bill. Tax liability recalculations were made on the basis of net income before and after the apportionment changes of the bill, prior to deductions for net operating losses, S-corporation passthroughs, and federal income taxes paid. Tax liability changes for the sample firms were then extrapolated to all firms within the various strata. The net effect of this technique was a $50.2 million increase in corporate tax liabilities, and was arrived at prior to the separate four-factor provisions for oil & gas firms were added for the reengrossed bill. The results of the oil & gas firms within the sample described above imply and additional $3.4 million of aggregate liability increase assuming a four-factor average with two sales factors for oil & gas firms, for a total tax liability increase of $53.6 million.

This type of analysis is a re-computation based on the returns of one tax year for a tax that exhibits a high degree of volatility from year to year due, in part, to the high degree of volatility of the underlying tax base of business net income and the varying components of complex multi-state and multi-national corporate tax returns. There is no certainty that the results of such a re-computation for a single tax year is indicative of the results that would occur in any future year. For example, the results implied for oil & gas firms was counter to what was expected, but may reflect only the unique circumstances of the sampled firms in a single particular year. To the extent tax liabilities are affected, actual tax receipts would be affected, typically, over a two to three year period as returns and payments are filed for each tax year.

Such changes in corporate taxation tend to involve considerable shifting of the tax burden among different tax payers. In this exercise, while nearly 61% of the returns exhibited no change in tax liability, 20% exhibited a decrease in liability and 19% exhibited an increase in liability.

Also, the bill's provisions for market sourcing of sales could not be included in the analysis, as this information is not available to the department for analysis. What effect these provisions would have on calculations such as these is uncertain, although market sourcing is generally done to incorporate more net income of firms selling into the state into the state's tax base. However, if firms have large out-of-state sales, market sourcing can work to reduce their tax liabilities.

Senate | Dual Referral Rules | House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 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