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TO: The Honorable Phillip R. DeVillier, Speaker of the House

FROM: Benjamin Vincent, Chief Legislative Economist
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DATE: October 11, 2024

SUBJECT: Preliminary Analysis of Draft Legislation – Corporate Franchise Tax (CFT): Immediate Repeal, Termination of Applicability of Certain Credits

Summary

Expenditures	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
State General Fund	$0	$0	$0	$0	$0
Self-Generated Revenues	$0	+$80,000	$0	$0	$0
Dedications/Other	$0	$0	$0	$0	$0
Federal Funds	$0	$0	$0	$0	$0
Local Funds	$0	$0	$0	$0	$0
Annual Total	$0	$0	$0	$0	$0

Revenues	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
State General Fund	$0	Decrease	Decrease	Decrease	Decrease
Self-Generated Revenues	$0	Decrease	Decrease	Decrease	Decrease
Dedications/Other	$0	Decrease	Decrease	Decrease	Decrease
Federal Funds	$0	$0	$0	$0	$0
Local Funds	$0	$0	$0	$0	$0
Annual Total	**$0**	**-$170,000,000**	**-$507,000,000**	**-$533,000,000**	**-$533,000,000**

Expenditure Explanation and Assumptions

LDR reports an anticipated one-time expenditure increase amounting to approximately $80,000 for system design, development, specification, and testing to accommodate changes to the combined corporate tax return. Any such increase would come out of SGR collections, as reflected in the table above. Any such expenditure increases will serve to mechanically reduce net receipts (SGF) by a like amount. LFO assumes these expenditures would impact FY26.

Note: This analysis reflects bill draft serialized as “HLS 25RS-95 DRAFT 10/4/24 8:21 AM”

Revenue Explanation and Assumptions
The proposal referenced:

- Entirely repeals CFT
- Repeals applicability of certain tax incentives to CFT
- Is effective July 1, 2025, and applicable to CFT-taxable years beginning on or after January 1, 2026.

Overall fiscal impact of this proposal can be approximated by the combined impact of the items discussed below- net CFT liability, likely migration of non-refundable credits to other revenue sources, and existing carryforwards and credits that are likely to impact cash collections in FY25, FY26 and/or FY27. LFO anticipates an **overall revenue reduction of $170 million in FY26 due to this proposal, followed by a reduction of $507 million in FY27, and $533 million in FY28** and subsequent years.

Impact on Net Franchise Tax Liabilities of Full Immediate Repeal:

The corporate franchise tax liability change was modeled using returns reflecting 2022 tax liabilities. Recent historical filing patterns for this tax indicate that 28% of payments due are collected in the year they are incurred, an additional 65% are collected in the subsequent year, and the remaining 7% are typically collected in the third year. The full (year 3) effect resulting from full repeal is an estimated $533 million in reduced CFT net liability. Typical filing patterns imply that this would result in a $149 million reduction in FY25, $496 million reduction in FY26, and a $533 million reduction in FY27.

Credits Applicable to Other Taxes:

Recent filing and payments from returns that typically claim such credits imply that they impact payments in a similar staggered fashion over three years. This analysis assumes a typical full-year impact of approximately $130 million; however the effect of the likely migration of these credits is included in the $533 million figure from the previous section ("net" franchise tax liabilities).

Refunds for CFT Overpayments (Credits Carried Forward):

Total credit carry-forwards of this type for CFT from taxable year 2022 amount to approximately $41 million. This analysis assumes they partially impact both FY26 and FY27 equally (50%, or approximately $21 million). No such overpayments or carry-forwards are assumed in subsequent years for the purpose of this analysis.