HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 1960 **PRINTERS NO**. 3035 **PRIME SPONSOR**: Kail

REVENUE INCREASE / (DECREASE)

FUND	FY 2021/22	FY 2022/23
General Fund	**$0**	**($127,700,000)**

SUMMARY: House Bill 1960, Printer's Number 3035, amends the Tax Reform Code further providing for definitions, for imposition of tax and for certifications and publications in the corporate net income tax (CNIT).

ANALYSIS: This legislation reduces the CNIT tax rate from 9.99% to 8.99% for tax years 2023 and thereafter and provides a trigger mechanism to further reduce the tax rate to 7.99% by tax year 2025 based on the General Fund budget surplus for the fiscal years 2022-23 and 2023-24. The Independent Fiscal Office (IFO) shall confirm the amount of the budget surplus certified by the budget secretary and the following shall apply:

1. If the budget surplus exceeds $500 million in fiscal year 2022-23, the CNIT tax rate shall be reduced to 8.49% for tax year 2024, and
   a. If the budget surplus exceeds $500 million in fiscal year 2023-24, the CNIT tax rate shall be reduced to 7.99% for tax years 2025 and thereafter, or
   b. If the budget surplus does not exceed $500 million in fiscal year 2023-24, the CNIT tax rate shall remain 8.49% in tax years 2025 and thereafter.
2. If the budget surplus does not exceed $500 million in fiscal year 2022-23, the CNIT tax rate shall remain 8.99% for tax year 2024, and
   a. If the budget surplus exceeds $500 million in fiscal year 2023-24, the CNIT tax rate shall be reduced to 8.49% for tax years 2025 and thereafter, or
   b. If the budget surplus does not exceed $500 million in fiscal year 2023-24, the CNIT tax rate shall remain 8.99% in tax years 2025 and thereafter.

Similarly, this legislation provides a trigger mechanism to increase the current net operating loss (NOL) deduction cap of 40% of taxable income permitted under the CNIT based on the General Fund budget surplus for the fiscal years 2022-23 and 2023-24. The Independent Fiscal Office (IFO) shall confirm the amount of the budget surplus certified by the budget secretary and the following shall apply:

3. If the budget surplus exceeds $750 million in fiscal year 2022-23, the NOL cap shall be increased to 45% for tax year 2024, and
   a. If the budget surplus exceeds $750 million in fiscal year 2023-24, the NOL cap shall be increased to 50% for tax years 2025 and thereafter, or
   b. If the budget surplus does not exceed $750 million in fiscal year 2023-24, the NOL cap shall remain at 45% in tax years 2025 and thereafter.

4. If the budget surplus does not exceed $750 million in fiscal year 2022-23, the NOL cap shall remain at 40% for tax year 2024, and
    c. If the budget surplus exceeds $750 million in fiscal year 2023-24, the NOL cap shall be increased to 45% for tax years 2025 and thereafter, or
    d. If the budget surplus does not exceed $750 million in fiscal year 2023-24, the NOL cap shall remain at 40% in tax years 2025 and thereafter.

The act shall take effect immediately.

FISCAL IMPACT: Enactment of this legislation is estimated to reduce General Fund revenues by $127.7 million in fiscal year 2022-23 resulting from the CNIT rate reduction to 8.99% for tax year 2023, which represents a partial year cost of the full impact of the reduction. Each 1% of the CNIT currently generates approximately $400 to $450 million in a full tax year.

Any future reduction in the CNIT tax rate is dependent on the certification of a budget surplus in excess of $500 million. Each 0.5% reduction of the CNIT rate is estimated to reduce tax collections in the General Fund by approximately $65 million in the first fiscal year of implementation, which represents a partial year cost. The full tax year cost of a 0.5% reduction in the CNIT rate is estimated to be approximately $200 million.

Similarly, any future increases in the NOL cap are dependent on the certification of a budget surplus in excess of $750 million. The fiscal impact of the increase in the NOL cap is highly dependent on the current economic cycle. Previous estimates provided by the Department of Revenue indicate that each 5% increase in the NOL cap, up to a total of a 50% cap, would result in reduced tax revenues to the General Fund in the range of $20 to $35 million in the first fiscal year of implementation, which represents a partial year cost. The full tax year cost of a 5% increase in the NOL deduction is estimated to be approximately $60 to $90 million.

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House Appropriations Committee (R)

DATE: April 26, 2022

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.