



May 2015

## Louisiana House Serves Up Revenue Raising Bills to the Senate

The [Louisiana House of Representatives](#) took a major step May 7<sup>th</sup> in addressing the \$1.6 billion budget hole for the 2016 fiscal year. All in, the House moved forward approximately \$664 million in revenue raising bills, in spite of many protests by business and industry representatives. While the stated goal of many legislators was to have the burden of these revenue increases be broadly shared by all taxpayers, in reality it seems clear that businesses will bear the brunt of this proposed budget fix.

Individuals will be impacted by the bill raising the taxes on cigarettes (we haven't seen too many businesses smoking) and by the bill limiting the credit for taxes paid to other states; however, these bills address only \$102 million of the \$664 million in revenue.

For businesses that operate as S-corporations, there is a loss of 20% of the S-corporation exclusion courtesy of HB 629. This means taxes will be paid on 20% of income at the corporate income tax level and then 100% at the S-corporation individual owner level.

Business is also taking a hit on the net operating loss (NOL) deduction. The NOL carryback goes away under HB 218, and there is a 20% haircut to the NOL under HB 624.

Sales taxes will be paid on almost one penny of the sales of steam, water, electric power, or energy used by businesses if HCR 8 makes it through the process.

Also, every tax credit will see a 20% reduction thanks to HB 629. The tax credits impacted by HB 629 include: the credit for local inventory taxes paid (the refundability of 20% of this credit also goes away under HB 829); the research and development (R&D) tax credit; the digital media tax credit; and the modernization tax credit. As you can see, a lot of geese are getting cooked on this one.

A detailed list of the bills that passed the House on May 7<sup>th</sup> (including the final votes from the House) is below. These bills now move on to the [Senate](#), who will add their own bit of spice to the budget fix recipe.

- [HB 549](#) by Rep. Thibaut (76 yeas to 24 nays) – Changes the severance tax exemption for production of oil and natural gas from horizontally drilled wells and horizontally drilled recompletion wells by changing the amount of the exemption from 100% to an amount based on a published price of oil and natural gas. This change is effective from June 1, 2015 to June 30, 2017. The related fiscal note, however, states that, based on the price thresholds in the bill, it is unlikely that any tax rate will actually be imposed on horizontal production in the foreseeable future. Thus, this is not projected to raise any revenue within that time frame.
- [HB 218](#) by Rep. Broadwater (94 yeas to 10 nays) – For any claim filed on or after July 1, 2015, regardless of the taxable year to which the return relates, HB 218 eliminates the three year carryback of the net operating loss deduction for purposes of calculating corporate income tax liability and increases the carryforward period from 15 years to 20 years. This is projected to raise \$29 million in revenue per year.
- [HB 119](#) by Rep. Ritchie (77 yeas to 27 nays) – Levies an additional tax of 32¢ per pack of 20 cigarettes thereby increasing the total tax per pack of 20 cigarettes from 36¢ to 68¢ per pack and dedicates the proceeds of the tax to fund Medicaid. This is projected to raise \$68 million in revenue in the first year, and \$78 million per year thereafter.
- [HCR 8](#) by Rep. Montoucet (65 yeas to 38 nays) – Suspends the exemption for business utilities as to the 0.97% state sale and use tax levy for sales of steam, water, electric power or energy, and natural gas. This is projected to raise \$103 million in revenue.
- [HB 402](#) by Rep. Stokes (96 yeas to 7 nays) – Limits the credit for taxes paid to other states to the amount of tax paid to another state at the same rate Louisiana imposes tax and requires that in order to a taxpayer to claim the credit that the other state must also provide a credit for Louisiana income tax or Louisiana source income. This is projected to raise \$34 million in revenue per year.
- [HB 779](#) by Rep. Ponti (90 yeas to 11 nays) – Adds requirements for claiming the solar energy systems tax credit for a purchased system, reduces the maximum value of the credit, and repeals the credit for leased systems. The bill also speeds up the phase out of the credit. This is projected by the legislators to raise \$10 million in revenue in fiscal year 2016 and about \$20 million each year in 2017 and 2018, based on certain assumptions made.
- [HB 635](#) by Rep. Katrina Jackson (65 yeas to 38 nays) – Implements a 20% reduction to all rebates, including Quality Jobs and Competitive Projects Payroll. This is projected to raise no revenue in the first year, but would raise \$37.1 million over the course of 5 years.
- [HB 629](#) by Rep. Katrina Jackson (66 yeas to 35 nays) – Implements a 20% reduction to credits for income and franchise tax, including 20% reductions for the Digital Media Credit, Quality Jobs Credit

and R&D Credit. This is projected to raise \$223 million in revenue in fiscal year 2016, and \$1.16 billion in revenue over 5 years.

- [HB 624](#) by Rep. Katrina Jackson (64 yeas to 36 nays) – Implements a 20% reduction to most corporate income tax exclusions and deductions. This is projected to raise \$194 million in revenue per year.
- [HB 805](#) by Rep. Adams (58 yeas to 3 nays) – Changes the tax credit for ad valorem taxes paid on certain inventory and natural gas from refundable credits to credits for which 75% of the excess credit amount is refundable and the remaining 25% of the credit amount is carried forward and may be applied against subsequent income tax liability for up to five years. This is projected to raise \$118 million in revenue in the first year.
- [HB 829](#) by Rep. Robideaux (101 yeas to 2 nays) – Caps the maximum amount of credits which may be certified annually for the Motion Picture Tax Credit program at \$200 million and beginning July 1, 2015, caps the amount of credits available for any single state-certified production at \$30 million.

The JW SALT Team is carefully reviewing each bill that is moving through the process. Stay tuned to our blog for more developments regarding the legislature’s constantly evolving budget plan.

*Remember that these legal principles may change and vary widely in their application to specific factual circumstances. You should consult with counsel about your individual circumstances. For further information regarding these issues,*

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