



The Public Affairs Research Council of Louisiana

Trends in the Corporate Franchise Tax

Louisiana is one of a diminishing number of states with a franchise tax, which taxes capital assets and net worth. This tax on wealth and investment is widely recognized as a complex and antiquated type of taxation that discourages investment, inhibits economic development, provides a disincentive to corporate headquarters operations and causes costly compliance and auditing problems.

Sixteen states have a franchise or capital stock tax, of which two are phasing theirs out. Five other states have eliminated their franchise taxes in the past five years. Only Connecticut has a higher franchise tax rate than Louisiana, and in that state a company can choose to pay either the franchise or income tax liability, whichever is greater. Also, Louisiana is one of only eight states with an unlimited franchise tax, including Mississippi which is phasing out the tax.

The total tax liability for Louisiana's franchise tax in fiscal 2014 was \$460.1 million; however, after credits and prepayments, the net amount collected in state revenue was \$157.1 million. Net collections in fiscal 2013 were only \$84.7 million. A new law passed in the First Special Session of 2016 will extend the tax to a broader class of businesses, possibly adding \$90 million in state revenue for fiscal 2018, according to the Legislative Fiscal Office.

2 States Are Phasing-Out Their Corporate Franchise Taxes

- New York: Will phase-out its alternative tax on business capital by 2021
- Mississippi: Will gradually phase-out the franchise tax between 2019 and 2028

5 States Have Recently Phased-Out Their Corporate Franchise Taxes

- Missouri (2016)
- Pennsylvania (2016)
- Rhode Island (2015)
- West Virginia (2015)
- Kansas (2011)

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14 States Are Retaining Their Corporate Franchise Taxes

- Some states have a maximum franchise tax payment that would be owed by a company, or a 'cap', while other states have unlimited payments, or 'no cap'.

| Cap | | | No Cap | |
|-------|----------|-----------|--------|----------|
| State | Rate (%) | Cap (\$) | State | Rate (%) |
| AL | 0.175 | 15,000 | LA | 0.3 |
| CT | 0.37 | 1,000,000 | AR | 0.3 |
| DE | 0.035 | 180,000 | MA | 0.26 |
| GA | * | 5,000,000 | TN | 0.25 |
| IL | 0.1 | 2,000,000 | NC | 0.15 |
| NE | * | 11,995 | SC | 0.1 |
| OK | 0.125 | 20,000 | WY | 0.02 |

*denotes a fixed dollar payment schedule

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