BILL ANALYSIS AND FISCAL IMPACT REPORT
Taxation and Revenue Department

January 27, 2025

Bill: SB-28 **Sponsor:** Senator Pat Woods

Short Title: Distributing Corporate Income Tax to the State Road Fund

Description: This bill creates a distribution from corporate income tax (CIT) revenue to the state road fund equal to the net receipts attributable to corporate income tax.

Effective Date: July 1, 2026

Taxation and Revenue Department Analyst: Lucinda Sydow

Estimated Revenue Impact*					R or NR**	Fund(s) Affected
FY2025	**FY2026**	**FY2027**	**FY2028**	**FY2029**		
--	--	(741,200)	(746,000)	(758,200)	R	General Fund
--	--	741,200	746,000	758,200	R	State Road Fund

* In thousands of dollars. Parentheses ( ) indicate a revenue loss. ** Recurring (R) or Non-Recurring (NR).

Methodology for Estimated Revenue Impact: The Taxation and Revenue Department (Tax & Rev) shifted the current Consensus Revenue Estimating Group's (CREG) December 2024 CIT forecast from the General Fund to the State Road Fund.

Policy Issues: Directing all CIT revenue to the state road fund will eliminate a recurring General Fund revenue source, reducing the legislature's budgetary flexibility with respect to the broad appropriation needs of the State in future years. In FY24, CIT contributed $627.2 million to the General Fund, or approximately 4.8% of recurring General Fund revenue. This is up from $439.1 million in FY23, 3.8% of General Fund revenue, due to the shifting of pass-through entity (PTE) revenue to the CIT program at the half-way point in FY24. The closer alignment of PTE filings with the CIT program required this accounting change. In FY25 PTE revenue will be fully recognized in CIT. This is forecasted to result in CIT becoming 5.4% of recurring General Fund revenue in FY25. Both CIT and Personal Income Tax (PIT) are aggregated as one revenue source, Income Taxes, on the CREG forecast. Shifting one income tax source from the General Fund will mark a significant change.

CIT revenue is notably volatile due to a large share of corporate revenue being tied to oil and natural gas extraction and the volatility of that industry. With new PTE revenue recognized in CIT, the volatility may increase as the new entity-level tax is new and taxpayer preference on how to file is still being observed. In addition, changes at the federal level, including possible changes to the Tax Cuts and Jobs Act of 2017, and its imposition of a SALT cap, could lead to changes at the state level for PTE. While this volatility leads to challenges in forecasting the revenue for the General Fund, being only 5.4% of General Fund revenue, the General Fund can absorb the volatility more easily. Shifting this revenue to the State Road Fund would more than double the revenue to this fund and lead to over 50% of the fund being subject to volatility. This would substantially increase the amount of revenue for budgeting but would likely lead to higher uncertainty in the budget planning of funding road projects.

While corporate taxpayers use and need of roads could validate CIT revenue being diverted to the State Road Fund to aid in maintaining roads, individual taxpayers also use roads. The diversion of Motor Vehicle Excise Tax (MVX) is seen as a supportable earmark to the fund to directly tie vehicles sales to road deterioration. MVX is also historically less volatile and more resilient to economic downturns. However the connection between CIT revenue and state road expenditures is not nearly so clear. While tying certain sources of revenue to particular expenditures may make sense when the two are closely related, as with MVX and road usage, when the connection is not as clear, better tax policy is not to constrain government flexibility in making appropriations and use of revenues.

Technical Issues: None.

Other Issues: None.

Administrative & Compliance Impact: Tax & Rev's Administrative Services Division (ASD) will need to update the general ledger, revenue reporting and create a new distribution. It is anticipated this work will take approximately 60 hours split between 2 FTE of a pay band 70 and a pay band 80 at a cost of approximately $3,800. Collaboration and input from the Department of Finance and Administration (DFA) is required as this will decrease General Fund revenue distributions.

Implementing this bill will have a moderate impact on Tax & Rev's Information Technology Division (ITD), approximately 510 hours or 3 months for an estimated $33,900 of staff workload costs.

Estimated Additional Operating Budget Impact*				**R or NR****	**Fund(s) or Agency Affected**
FY2025	**FY2026**	**FY2027**	**3 Year Total Cost**		
--	$3.8	--	$3.8	NR	Tax & Rev- ASD staff workload
--	$33.9	--	$33.9	NR	Tax & Rev- ITD staff workload

* In thousands of dollars. Parentheses ( ) indicate a cost saving. ** Recurring (R) or Non-Recurring (NR).