



2023-2024 General Assembly

SENATE BILL 508: 2023 Budget Technical/Other Corrections, Sec. 11.2: Clarify Franchise Tax Cap on the First One Million Dollars of C Corp Tax Base

Committee:		Date:	August 14, 2024
Introduced by:		Prepared by:	Trina Griffin Staff Attorney
Analysis of:	Sec. 11.2 of S.L. 2024-1		

OVERVIEW: Section 11.2 of S.L. 2024-1 clarifies that the franchise tax cap on the first \$1 million of C Corporation's tax base is a maximum of \$500 and not a flat rate of tax.

This section is effective for taxable years beginning on or after January 1, 2025, and applicable to the calculation of franchise tax reported on the 2024 and later corporate income tax return.

CURRENT LAW: The franchise tax is imposed on C Corporations and S Corporations for the privilege of engaging in business in this State. The rate of tax is \$1.50 per \$1,000, subject to a minimum tax of \$200. For an S Corporation, the tax is capped at \$200 for the first \$1 million of it tax base, but, prior to the enactment of last year's budget, there was no similar cap for C Corporations.

Section 42.6A of S.L. 2023-134 provided that the franchise tax is \$500 for the first \$1 million dollars of a C Corporation's tax base, effective for taxable years beginning on or after January 1, 2025, and applicable to the calculation of franchise tax reported on the 2024 and later corporate income tax return.

BILL ANALYSIS: After passage of the budget, the Department of Revenue requested clarifying language be added to make clear that \$500 is the maximum tax and not a flat rate of tax. In other words, a taxpayer would pay less than \$500 if its tax base is less than \$1 million dollars. Thus, Section 11.2 clarifies that the franchise tax cap on the first \$1 million dollars of a C Corp's tax base is a maximum of \$500 and not a flat rate of tax.

EFFECTIVE DATE: This section is effective for taxable years beginning on or after January 1, 2025, and applicable to the calculation of franchise tax reported on the 2024 and later corporate income tax return.

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