LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 172** SLS 17RS 378
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 3, 2017 4:24 PM
Author: MORRELL
Dept./Agy.: Revenue
Subject: Terminates Various Tax Credits
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TAX/TAXATION EG +$28,000,000 GF RV See Note

Terminates certain tax credits as of January 1, 2019. (8/1/17)

The bill terminates certain tax credits with staggered starting dates from January 1, 2019 to January 1, 2022. The terminations apply either to credits claimed or to entrance into programs that generate credits through certifications, as appropriate to the credit.

Effective August 1, 2017.

EXPENDITURES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0		$28,000,000	$254,000,000	**$282,000,000**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$23,000,000	$23,000,000	**$46,000,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$51,000,000**	**$277,000,000**	**$328,000,000**

EXPENDITURE EXPLANATION

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time ($51,000 in this case). Eventually, fewer credits would have to be accounted for in tax filings, reducing tax administration costs. An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

REVENUE EXPLANATION

The Dept. of Revenue examined each credit affected by the bill to establish a likely revenue effect resulting from each credits particular termination, based on historical claims of the credits and filing patterns of tax returns. However, the value of credits and the pattern of their claims have been distorted by legislation enacted in the 2015 and 2016 session. Where possible, those legislative actions were attempted to be accounted for, but not all such actions could be accounted for. The resulting increases in net revenue collections from terminating credits are highly uncertain.

Material revenue effects would likely first occur in FY21. Relatively minor or inactive credits are terminated with tax year 2019, then more material credits in tax year 2020 and 2022. The overall effect of the bill may be an increase of $28 million in FY21, then stepping up to $254 million in the FY22, and $268 million in FY23 and beyond as returns are filed from earlier years under extension along with the current tax year returns of the terminations. It takes roughly a three-year transition period for almost all returns affected by the bill's different termination dates to complete the fiscal effect of a termination. The staggered nature of the terminations complicates the fiscal assessment and makes the estimated effects of the bill even more uncertain. Actual effects in particular fiscal years are likely to be different from those estimated here.

Any carry-forward provisions are assumed to remain in effect for credits received prior to the termination date of the bill. Credits based on a contract and/or application are not included in the total above due to the relatively long lag time it takes after entering those programs and the receipts and realization of the associated credits. The Dept. notes that these credits amounted to $278 million in FY16.

The estimated effect on the Telephone Company Property Tax Credit is depicted as a gain to statutory dedication revenue because the bill terminates the credit but not the dedication. Based on the timing associated with that credit, the fund gains revenue initially in FY21.

Senate — Dual Referral Rules
- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

House
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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