LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 130** SLS 17RS 318
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 5, 2017 4:36 PM **Author:** ALLAIN
Dept./Agy.: Local Governments
Subject: Ad Valorem Taxation of Inventory and Manufacturers **Analyst:** Greg Albrecht

TAX/AD VALOREM OR DECREASE LF RV See Note

Constitutional amendment to phase out the ad valorem tax on inventory and to reduce the industrial property tax exemption on millages related to school funding. (2/3 - CA13sl(A))

Proposed constitutional amendment authorizes the State Board of Commerce and Industry to enter or renew industrial tax exemption contracts on or after January 1, 2019 that grant partial exemption to school millages based on the value of the affected property after ten years of use. In addition, ad valorem taxation of inventory is phased out evenly over a ten year period beginning with valuations of 2019. Complete elimination of the inventory tax base is to occur with the valuations of 2028.

To be submitted to the electors at the statewide election to be held on November 6, 2018.

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	INCREASE	INCREASE	INCREASE	**$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	DECREASE	DECREASE	DECREASE	**$0**
Annual Total	**$0**	**$0**				**$0**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The Dept. of Economic Development (LED) estimated the ten-year amount of total foregone property tax statewide associated with the Industrial Tax Exemption Program (ITEP) on a parish-by-by parish basis utilizing five-year ITEP contract approvals for the period 2008 through September 2016. The proportion of total foregone property tax associated with school millages was estimated by parish from the 2015 LTC annual report. Those parish proportions (ranging widely from 12.5% to 56.7% across parishes) were applied to each parish's foregone tax total to arrive at a rough estimate of total ten-year statewide school property taxes foregone by the ITEP; totaling some $4.1 billion, or $458 million per year statewide. Assuming a constant average annual amount of program contracting, approximately $45 million a year of new program activity associated with school millages occurs. Depreciation is accounted for with composite multipliers promulgated by the La Tax Commission (LTC). This resulted in an estimate of the fair market value of property at the 11th year, at approximately 50% of initial value; translating to $23 million of total annual property tax collections affected.

This tax total would accumulate to local school systems over a ten-year period, as new contracts and renewal contracts are entered each year without school millages subject to exemption, and millages applying to the depreciated modified fair market value of the bill. Assuming a simple smooth flow of contracts over time, in the first year (possibly FY20) local revenue would be enhanced by some $23 million, then by $46 million in the second year, then $69 million by the third year etc. This accumulation would continue over a ten-year period to a local gain of $230 million per year before stabilizing at that level by FY29. Actual results will depend on the level and distribution of industrial investment activity over time and across parishes, and will differ from the results of the estimating exercise described above.

The phase out of ad valorem taxes on inventory property assumes roughly $500M per year of tax associated with inventory property. A phase-out of these collections evenly over ten years begins with a $50M aggregate local revenue loss in FY20, accumulating by $50M per year until $500M is lost in FY29. Combined revenue effects are a negative $27M in FY20 and climb to a negative $54M by FY22, the end of the fiscal note horizon, and continue to climb through FY29. Actual results will differ from this estimating exercise, but it seems likely that net revenue losses will occur each year. As inventory taxes decline, credits against state taxes should decline as well, resulting in growing gains in state net receipts each year.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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