LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 17** SLS 182ES 51
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:
REVISED

Date: May 29, 2018 7:05 PM
Author: MORRELL
Dept./Agy.: LA Dept. of Revenue
Subject: Ends Tax Credit for Ad Valorem Taxes on Inventory
Analyst: Zachary Rau

TAX/AD VALOREM OR +$15,700,000 GF RV See Note
Phases out the tax credit for ad valorem taxes paid on inventory. (Item #21) (8/1/18)

Present law authorizes a credit for ad valorem taxes paid on certain inventory and stored natural gas, with varying provisions of refundability and nonrefundability dependent upon claimants industrial tax exemption status, size of credit ,and date of business formation. Proposed law repeals authorization of the aforementioned credit on January 1, 2022. Proposed law renders refundable tax credits for ad valorem taxes paid void and of no value if the credits are not claimed by December 31, 2023. Proposed law requires carry forwards of nonrefundable credits to be claimed by December 31, 2025 and converts any carry forwards of such credits not claimed into an income tax deduction.

EXPENDITURES	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$26,000	**$26,000**
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**	**$26,000**	**$26,000**

REVENUES	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$15,700,000	**$15,700,000**
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**	**$15,700,000**	**$15,700,000**

EXPENDITURE EXPLANATION

Proposed law will result in a one-time SGF expenditure of $26,000 for the LA Dept. of Revenue (LDR) in FY 23. LDR reports that the expenditures are associated with tax form modifications to account for the termination of the credit for ad valorem taxes paid on inventory and stored natural gas.

REVENUE EXPLANATION

The LA Dept. of Revenue (LDR) reports that proposed law will increase SGF receipts by approximately $15.7 M in FY 23 with a phase-up to $152 M in FY 24.

Present law currently authorizes tax credits, refundable and nonrefundable, for ad valorem taxes paid on inventory and stored natural gas. Entities participating in the Industrial Tax Exemption Program (ITEP) are allowed nonrefundable tax credits against income and corporate franchise taxes that may be carried forward for up to 5 years, while entities not participating in ITEP may have credits against their tax liabilities with limited refundability. Nonrefundable portions of credits with limited refundability may also be carried forward for five years. The proposed legislation would terminate all credits for ad valorem taxes paid on inventory and stored natural gas, nonrefundable and refundable, by December 31, 2025.

Proposed law's effect would initially be realized in FY 23. LDR reports that claims associated with these credits totaled approximately $312.7 M in FY 17, and that filings for tax year 2016 indicate that approximately $72.5 M was claimed as nonrefundable credit carry forwards. LDR further indicates that claims for a given tax year are realized over a number of fiscal years, with approximately 28% of claims being realized in the first year of filing and the balance being realized in subsequent fiscal years. Due to the claims date requirements of refundable credits included in proposed law, LDR assumes that the balance of claims for tax year 2022 (filed beginning in FY 23) would be realized in FY 24.

Using these figures and assumptions as baselines, to the extent credit claims for tax year 2022 total $312.7 M, claims of the credit in FY 23 would total approximately $88.2 M ($312.7 M * 28%). Applying the nonrefundable credit carry forward claims baseline of $72.5 M against total credit claims yields a net revenue increase $15.7 M ($88.2 M - $72.5 M) in FY 23. Repeating the same methodology for the remainder of the claims for tax year 2022, approximately $224.5 M ($312.7 M * 72%), yields a net revenue increase of approximately $152 M for FY 24 and each year thereafter ($224.5 M - $72.5 M).

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

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

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