LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 114** HLS 21RS 162
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 16, 2021 12:35 PM | **Author:** DEVILLIER
Dept./Agy.: Local Governments / Dept. of Revenue
Subject: Ad Valorem Taxation of Inventory | **Analyst:** Greg Albrecht

TAX/AD VALOREM-EXEMPTION OR -$444,500,000 LF RV See Note
(Constitutional Amendment) Phases-in over a four-year period an exemption for items constituting business inventory

Current law includes the assessed value of business inventory property in the ad valorem tax base of local taxing jurisdictions.

Proposed law phases out the value of business inventory from the local ad valorem tax base over a four-year period. For taxes payable in 2023 50% of the assessed value is exempt, for 2024 65% is exempt, for 2025 80% is exempt, and for 2026 and beyond 100% is exempt. In addition, the loss of tax collections resulting from the exemption shall be absorbed by the taxing authority, and shall not create any additional tax liability for taxpayers as a result of subsequent reappraisal or millage adjustment.

To be submitted to the electors at the statewide election to be held on November 8, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$25,000,000	$134,000,000	$186,000,000	**$345,000,000**
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	($222,000,000)	($289,000,000)	($356,000,000)	**($867,000,000)**
Annual Total	**$0**	**$0**	**($197,000,000)**	**($155,000,000)**	**($170,000,000)**	**($522,000,000)**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

The 2020 Annual Report of the La Tax Commission reports the assessed value of inventory at $4.164 billion. Based on the Report's distribution of inventory valuation across parishes, and the parishwide effective millages, the total amount of ad valorem tax affected by the bill is currently approximately $444.5 million. Since ad valorem taxes are typically payable in December each year, the first fiscal year of local revenue loss would be FY24, at 50% of the taxes associated with inventories, or $222 million. The FY25 loss is 65% or $289 million. The FY26 loss is 80% or $356 million. By FY27 100% of inventory value is exempt or $444.5 million per year thereafter. No growth has been assumed for these valuations and the local revenue loss, although significant annual growth is possible. Through 2015 these valuations exhibited significant long-run trend growth (5.89% compound annual growth rate for 1988 - 2015). Valuations fell in 2016 and 2017, and while they have stepped back up over the last three years (2018 -2020), they haven't exhibited the trend growth of the earlier era.

There is a significant effect on state net tax receipts through the state tax credit for ad valorem taxes paid on inventory. The state credit has nonrefundable and refundable components, and has averaged some $281 million per year for the latest reported three-year period (FY17 - FY19). This state tax credit would decline as the ad valorem tax paid is phased out. A simple model of this credit reduction would result in comparable percentage reductions in the credit as the reductions in the ad valorem tax, with recognition of the state tax filing pattern for affected firms. For example, presuming a 50% reduction in the ad valorem tax, in the first year of the phase-out, results in a 50% reduction in the state credit ($140 million) realized over three fiscal years (18% in the first fiscal year, 90% in the second, and 100% by the third fiscal year). This pattern repeats for each year of ad valorem tax phase-out, and accumulates the credit phase-out until the entire amount of available credit is no longer granted. This model results in an estimated amount of credit reduction in each fiscal year, and consequently net state tax receipts increase, in the table above. The state net receipts gains continue into the out-years beyond the fiscal note horizon at $231 million in FY27, $275 million in FY28, and $281 million in FY29, at which time the entire inventory tax credit has been eliminated.

The inventory tax credit amount utilized above may not be entirely consistent with the concept of inventory referenced in the bill for ad valorem purposes; adding additional uncertainty to the estimates above.

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}

[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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