



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 247** SLS 22RS 321
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: March 31, 2022 12:23 PM **Author:** ALLAIN
Dept./Agy.: Economic Development **Analyst:** Deborah Vivien
Subject: Enabling a local option for permanent 80% ITEP

TAX/AD VALOREM OR SEE FISC NOTE GF RV Page 1 of 1
 Provides for procedures for parishes to exempt inventory from ad valorem taxation. (See Act)

Current law subjects all inventory to a local ad valorem tax (AVT). The state provides a refundable income and franchise tax credit to the taxpayer for 75% of the amount of the AVT on inventory (100% below \$10,000) with a 5 year carryforward of the remaining 25%. Current law also allows for an Industrial Tax Exemption Program (ITEP) exemption of AVT for certain manufacturing (and distribution center) entities with state (or economic development authority) approval for 5 years with a 5-year renewal. An Executive Order allows local approval of ITEP exemptions and lowers the exemption to 80% of the AVT. The Executive Order expires in January, 2024, after which the provisions will revert to current law or the parameters of a new Executive Order.

Proposed law authorizes local governing authorities to consider codifying a manufacturing ITEP exemption of 80% for 5 years with a 5-year renewal (and no exemption for distribution centers) with no local approval, if the local government exempts 100% of the inventory tax for all taxpayers. Locals may adopt the inventory tax exemption by ordinance together with approval of all municipalities in the parish or voter approval. Once approved, the inventory tax exemption can only be revoked by a two-thirds vote of the legislature. All adoption timelines are at the discretion of local governing authorities. Contingent upon passage of SB 246 of 2022 Regular Session.

EXPENDITURES	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>5 -YEAR TOTAL</u>
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	<u>\$0</u>	<u>\$0</u>	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Annual Total	\$0	\$0				\$0

REVENUES	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	SEE BELOW	SEE BELOW	SEE BELOW	\$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	<u>\$0</u>	<u>\$0</u>	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Annual Total	\$0	\$0				\$0

EXPENDITURE EXPLANATION

Upon passage of a parish ordinance together with either municipal government approval or voter approval, local tax collectors would no longer be required to administer the provisions of the inventory tax as all entities would be fully exempt. No local approval of ITEP exemptions would be allowed. It is assumed that any savings to local government from adoption of the exemption changes would be redirected to other areas of responsibility. Voter approval authorizes local discretion to pursue this trade-off without a mandatory timeline. Proposed law is contingent upon approval of a constitutional amendment to be considered by voters at the statewide election to be held on November 8, 2022, as proposed in SB 246 of the 2022 Regular Session of the Louisiana Legislature.

REVENUE EXPLANATION

The bill offers an optional trade-off between exempting the inventory tax and receiving a permanent 80% ITEP exemption without local approval for new projects. The ITEP exemption is currently 80% with local approval by Executive Order JBE 2016-26, which will expire in January, 2024. If a new Executive Order is not put in place, the ITEP for new projects will revert to current law at 100% with no local control.

Parishes approving this trade-off will no longer receive revenue from the inventory tax but will lock in the 20% AVT revenue from existing and future ITEP projects (though without local control.) Parishes not approving the inventory tax exemption will continue to receive inventory tax revenue but will be subject to a 100% ITEP exemption without local control for projects going forward under current law. Individual parishes and municipalities will be impacted in different ways based on size and location of firms paying the inventory tax and receiving the ITEP exemption. Without knowing how local adoption of this measure will unfold, the impact of the bill cannot be calculated.

According to the LA Tax Commission 2021 Annual Report, there are currently 5,235 ITEP contracts in the state with a total exemption valued at over \$11B over the full term of the contracts.

For the state, to the extent that parishes approve an inventory tax exemption, state general fund will increase as the refundable tax credit for inventory taxes paid will no longer be paid for those parishes. According to the Tax Exemption Budget, the total Inventory Income Tax Credit reduces the state general fund by about \$295 M annually. If a parish adopts the Inventory Tax Exemption, state general fund will increase by the amount of the inventory tax credit that would have been paid out under current law. The earliest impacts, if any, would not be expected until FY 25 from taxes owed in 2024, as more policy decisions have been finalized.

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}

Alan M. Boxberger
 Alan M. Boxberger
 Interim Legislative Fiscal Officer