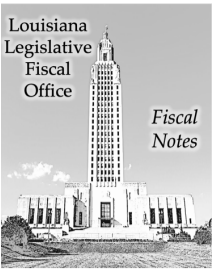


LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 153** HLS 23RS 579
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
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| Date: April 21, 2023 9:26 AM | Author: DEVILLIER |
| Dept./Agy.: Local Governments / Dept. of Revenue | Analyst: Deborah Vivien |
| Subject: Inventory tax phase-out | |

TAX/AD VALOREM-EXEMPTION OR -\$444,000,000 LF RV See Note Page 1 of 1
 (Constitutional Amendment) Phases-in, over a four year period, a property tax 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. Current law includes a state income tax credit for the value of the inventory taxes paid with 75% refundable and 25% carried forward for ten years (under \$10,000 is 100% refundable).

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 October 14, 2023.

| EXPENDITURES | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>2026-27</u> | <u>2027-28</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> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | <u>2023-24</u> | <u>2024-25</u> | <u>2025-26</u> | <u>2026-27</u> | <u>2027-28</u> | <u>5 -YEAR TOTAL</u> |
|---------------------|----------------|------------------------|------------------------|------------------------|------------------------|--------------------------|
| State Gen. Fd. | \$0 | \$26,000,000 | \$139,000,000 | \$192,000,000 | \$239,000,000 | \$596,000,000 |
| 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 | <u>\$0</u> | <u>(\$222,000,000)</u> | <u>(\$288,000,000)</u> | <u>(\$355,000,000)</u> | <u>(\$444,000,000)</u> | <u>(\$1,309,000,000)</u> |
| Annual Total | \$0 | (\$196,000,000) | (\$149,000,000) | (\$163,000,000) | (\$205,000,000) | (\$713,000,000) |

EXPENDITURE EXPLANATION
 There is no anticipated direct material effect on governmental expenditures as a result of this measure. The Secretary of State may incur minimal ballot processing costs associated with this measure. As a regular practice, the Secretary of State typically budgets for up to 10 constitutional amendments and statewide propositions for the fall statewide elections. To the extent the ballot includes more than 10 amendments and statewide propositions, the Secretary of State may require additional SGF resources for the October 14, 2023, statewide election. Any expenditure impact would be realized in FY 24.

REVENUE EXPLANATION
 The 2022 Annual Report of the La Tax Commission reports the assessed value of inventory at \$4.115 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 \$443.7 M. Since ad valorem taxes are typically payable in December each year, the first fiscal year of local revenue loss would be FY 25, at 50% of the taxes associated with inventories, or \$221.9 M. The FY 26 loss is 65% or \$288.4 M. The FY 27 loss is 80% or \$355 M. By FY 28 100% of inventory value is exempt, or \$443.7 M per year thereafter. No growth has been assumed for these valuations and the local revenue loss, although significant annual growth is possible. Though these valuations have exhibited significant long-run trend growth in the past, valuations have stayed relatively consistent over the last three years (except a decline in 2021, presumably due to supply chain and pandemic issues). Inventory valuations remain below the pre-pandemic level of 2019.

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 \$290 M per year for the latest reported three-year period (FY 20 - FY 22). This state tax credit would decline as the ad valorem tax 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 (\$145 M) 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 \$285 M in FY 29 and \$290 M in FY 30, at which time the entire inventory tax credit will have been eliminated.

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| <p><u>Senate</u> <u>Dual Referral Rules</u></p> <p><input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}</p> <p><input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}</p> | <p><u>House</u></p> <p><input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}</p> <p><input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p> |
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Alan M. Boxberger
 Interim Legislative Fiscal Officer