LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 85** SLS 15RS 405
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 19, 2015 1:55 PM
Author: ADLEY
Dept./Agy.: Tax Commission / Local Government
Subject: Exempt Inventory From Property Tax
Analyst: Greg Albrecht

TAX/TAXATION OR -$517,000,000 LF RV See Note

Constitutional amendment to exempt from ad valorem property taxes inventory held by manufacturers, distributors, and retailers and to prohibit adjustment of millages because of the implementation of the exemption. (2/3-CA13s1(A)) (1/1/16)

Current law {Art. VII, §21} provides that "...the following property and no other shall be exempt from ad valorem taxation:", followed by a listing of various types of property which are exempt from property tax.

Proposed law adds to that list of exempt property inventory held by manufacturers, distributors, and retailers. Millage adjustments are not allowed as a result of the consequent loss of tax receipts. Effective January 1, 2016.

To be submitted to the electors at the statewide election on October 24, 2015.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$60,000,000	$546,000,000	$582,000,000	$620,000,000	**$1,808,000,000**
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	($517,000,000)	($550,000,000)	($586,000,000)	($624,000,000)	**($2,277,000,000)**
Annual Total	**$0**	**($457,000,000)**	**($4,000,000)**	**($4,000,000)**	**($4,000,000)**	**($469,000,000)**

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill proposes to exempt from local property tax the inventory of manufacturers, distributors, and retailers. Since the bill is effective with the 2016 property tax year, and property taxes are typically due/paid by December 31 of the year, local governments will face revenue losses during FY17. The bill exempts only a subset of inventory, although affected inventories are likely a very large portion of total inventory. The Louisiana Tax Commission annually reports the total amount of inventory valuation (fair market and assessed) subject to property tax, and does not distinguish particular types of inventory. The latest report for 2014 suggests property taxes on all inventory was about $456 million (parishwide millages applied to assessed values), and this implied tax figure likely somewhat overstates the foregone revenue effect of the bill on local governments. Utilizing the total inventory valuations reported by the Commission, and omitting recession years and abnormally high growth years, valuation growth has averaged about 6.5% per year since 2004. This growth rate is applied from the FY14 tax figure to project the potential local tax effect of the bill through the fiscal note horizon.

The bill also has an effect on state receipts in that the amount of local tax paid on inventory property is fully reimbursed by the state through a 100% refundable credit against state income & franchise tax liabilities. The exemption of inventory from local property taxation will effectively eliminate the credit against state taxes, resulting in greater state net tax receipts. The effect on the state fisc is reflected in the amount of state tax credit claimed; some $452 million during FY14. Growth in credit amounts has exhibited an even faster pace than valuations; averaging some 13.5% since 2004, but appearing to slow somewhat to about 9% in the last couple of years. Ultimately, the growth in valuations should constrain the growth in state credits, and the valuation growth rate was applied to the FY14 credit amount to project the potential state credit effect of the bill through the fiscal note horizon.

A complication to estimating the effect on the state fisc is the fact that fiscal year figures reflect multiple tax years of returns, and only about 11% of claims on returns received in a given fiscal year are associated with the immediately preceding tax year (2015 in this case), with 84% associated with the second preceding tax year (2016 in this case), 4% with the third preceding tax year, and the remaining 1% in even earlier tax years. This means that for the first fiscal year affected, FY17, only one preceding tax period of returns (2016) will not be claiming the credit, resulting in only $60 million of net state tax receipts in FY17, then jumping to $546 million in FY18, and $620 million in FY20 (these latter two estimates were constrained to figures just under the local effect estimate which is based on total inventory).

Senate — Dual Referral Rules — House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
- [x] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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