

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 729** HLS 15RS 1218
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 2, 2015 5:50 PM	Author: LEGER
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Phase Out Inventory Tax Credit	

TAX/TAXATION OR +\$12,000,000 GF RV See Note Page 1 of 1
 Phases out inventory tax credits

Current law provides a refundable tax credit against state income and franchise tax of 100% of the ad valorem tax paid to local governments on inventory property.

Proposed law phases out this credit as follows: for inventory taxes paid for calendar year 2016, the credit shall be 80% of the taxes paid; for taxes paid in 2017, 60%; for taxes paid in 2018, 40%; for taxes paid in 2019, 20%; and beginning with taxes paid in 2020 the property there shall be no credit.

Effective July 1, 2015, and applicable for all tax years after such date.

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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$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	\$12,000,000	\$118,000,000	\$237,000,000	\$370,000,000	\$737,000,000
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>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$12,000,000	\$118,000,000	\$237,000,000	\$370,000,000	\$737,000,000

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 Louisiana Department of Revenue (LDR) reports that for FY14 credits taken for inventory taxes paid were \$452.7 million. Inventory valuations and credits have exhibited strong and persistent growth, averaging at least 6.5% per year. Thus, the total amount of tax credit expected to be taken in future fiscal years is estimated at \$482 million in FY15, \$513 million FY16, \$547 million FY17, \$582 million FY18, \$620 million FY19, and \$661 million FY20.

Based on the distribution of tax period returns within fiscal year results for this credit, only about 11% of each fiscal year's credits are attributable to the immediately preceding tax year (when the ad valorem taxes were largely paid), and 84% is attributable to the second preceding tax year. That 11%/84% pattern is applied to the fiscal year credit projections above, and then the credit phase-down schedule is applied to each of those results to arrive at a rough estimate of the net state tax receipt gain for each fiscal year, starting with FY17. For simplicity the 5% balance share is omitted in these calculations, meaning that the ramp up in net state receipt gains is somewhat faster than depicted here. Thus, for FY17 the gain is about \$12 million (11% of \$547 million multiplied by the 20% credit reduction of 2016). For FY18 the gain is about \$118 million (11% of \$582 million multiplied by the 40% credit reduction of 2017 + 84% of \$547 million multiplied by the 20% credit reduction of 2016). For FY19 the gain is about \$237 million (11% of \$620 million multiplied by the 60% credit reduction of 2018 + 84% of \$582 million multiplied by the 40% credit reduction of 2017). For FY20 the gain is about \$370 million (11% of \$661 million multiplied by the 80% credit reduction of 2019 + 84% of \$620 million multiplied by the 60% credit reduction of 2018).

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| Senate | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

John D. Carpenter
Legislative Fiscal Officer