LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 532** HLS 15RS 1147
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 14, 2015 5:48 PM **Author:** STOKES
Dept./Agy.: Revenue
Subject: Modifies Refundability of Certain Tax Credits **Analyst:** Greg Albrecht

TAX CREDITS EG +$13,000,000 GF RV See Note

Provides for the carry forward rather than the refund of a certain portion of the tax credit for ad valorem taxes paid on inventory

The bill modifies the refundability provisions specific to two refundable tax credits. If annual amounts of credit are in excess of annual tax year liabilities, 75% of the credit shall be refundable and 25% is allowed to be carried forward as a credit against liabilities in calendar years 2015, 2016, 2017, and 2018. In calendar year 2019 100% of the credit is refundable. Affected credits are: local property taxes paid on inventory and natural gas used in storage facilities.

Effective July 1, 2015.

Assumed to apply to tax year 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.	$13,000,000	$113,000,000	$126,000,000	$136,000,000	($284,000,000)	**$104,000,000**
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	$0	$0	$0	**$0**
Annual Total	**$13,000,000**	**$113,000,000**	**$126,000,000**	**$136,000,000**	**($284,000,000)**	**$104,000,000**

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 and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided. This bill is changing two credits and may incur higher than typical costs to implement.

REVENUE EXPLANATION

The intended implementation of the bill is unclear. This fiscal note assumes the bill is implemented as follows:
Each of the affected credits has its own pattern with respect to total claims and amounts offsetting tax liabilities, ultimately determining the balance refunded in excess of tax liabilities. But in each case, material amounts of the total credit available is refunded each year (sufficient tax liabilities are not available to exhaust the credits each year). Thus, greater net receipts will be retained by the state during the years of this bill's effectiveness. In each year of effectiveness of the bill, 75% of the excess amount of credit available will be refunded and 25% will be be carried over for use against liabilities generated in tax years 2015 - 2018. While allowing unused credit amounts to be carried forward maintains exposure of the state fisc to these amounts, it is likely that in the aggregate these unused credit amounts will not be realized during the carry-foward period. Thus, that 25% of excess credit amount is assumed to be the potential revenue gain from this bill.

Inventory claims growing at 6.5% per year were combined with the average amount for the natural gas credit to generate an expectation of fiscal year total claims starting at $518 million in FY16 and growing to $664 million by FY20. These total claims offset an aggregate average amount of tax liability of $73 million per year, leaving excess balances to be refunded that total some $445 million in FY16 and growing to $591 million by FY20. The bill allows 75% of these excess amounts to be refunded ($356 million in FY16 to $466 by FY20), and provides that 25% of these excess amounts can be carried forward for future use in the next five years. It is these 25% shares that are effectively retained by the state fisc, increasing net state tax receipts by $111 million in FY16 to $148 million by FY20.

A complication to estimating the effect on the state fisc in each particular fiscal year is the fact that fiscal year figures reflect multiple tax years of returns, while the change in the credits starts with a single tax period (the 2015 tax period). Each of these credits exhibits its own distribution of returns received in a single fiscal year that are attributed to each of several preceding tax years. That distribution was examined for each of the credits and applied to each credit's fiscal year refunded balance. The cumulative effect is 11.3% in year 1, 94% by year 2, 98.4% by year 3, 98.7% by year 4, and essentially 100% by year 5. This means that for the first fiscal year of affect (FY16), only one preceding tax period of returns (2015) will have the modified refunded amount of this bill, resulting in $13 million of net state tax receipts in FY16, then increasing to $113 million in FY17, $126 million in FY18, and $136 million in FY19. In FY20, the return to 100% refundability in tax year 2019 along with refunds of the 25% not refunded from tax year 2018 should result in a loss of revenue.

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

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