LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 2** SLS 161ES 41
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: February 23, 2016 8:59 AM **Author:** MORRELL
Dept./Agy.: Revenue
Subject: Inventory Credit **Analyst:** Greg Albrecht

TAX/TAXATION OR +$294,000,000 GF RV See Note

Provides for the reduction of the amount of certain ad valorem tax credits and for carryforward rather than the refund of certain portion of excess credit amount. (gov sig)

For property taxes paid on inventory, OCS vessels, and landline telecom property prior to January 1, 2016, no credit is allowed, for either offsetting tax liability or being refunded to the taxpayer. Current law provisions are retained for taxpayers paying less than $10,000 of property tax.

For such property taxes paid after January 1, 2016 the credit is 80% of the property taxes paid. Existing provisions regarding 75% refundable and 25% nonrefundable with five-year carry forward are retained.

Effective upon governor's signature.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	$294,000,000	$90,000,000	$86,000,000	$94,000,000	$90,000,000	**$654,000,000**
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	**$294,000,000**	**$90,000,000**	**$86,000,000**	**$94,000,000**	**$90,000,000**	**$654,000,000**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

Act 133 of the 2015 session established the current provisions for inventory that that this bill is modifying. That bill is expected to result in substantial additional net collections to the state as a result of allowing taxpayers to receive refunds for 75% of the inventory credit that exceeds tax liabilities, with the state essentially gaining the 25% share that was made nonrefundable with a five-year carry forward. This bill will deny any refund for property taxes paid prior to 2016 on inventory as well as OCS vessels and landline telecom property (credits that were not affected in Act 133). Then for property taxes paid on these properties in 2017 and beyond, the total credit is reduced to 80% of what was paid. Analysis of the impact of this bill is complicated by the fact that FY15 data are distorted due to an abnormal level of filings and credit claims prior to the effectiveness of the 2015 changes.

The Department of Revenue attempted to work around this complication by establishing a baseline credit cost expectation due to the 2015 changes but based on FY14 tax filings and credit claims with respect to the level of claims and liabilities, and the pattern of tax year filings within a fiscal year time frame (for example, 11% from the first preceding calendar year, 84% from the second preceding year, and 5% from the third preceding year). Thus, net receipts in revenue in FY17 will involve the denial of refunds for credit claims associated with these property tax payments in 2014 - 2016), and is estimated by the Department to be some $294 million. Then, the available tax credit for property taxes paid in 2017 and beyond will be reduced by 20% (to 80% of the amount paid in property tax) and subject to the current law provisions of refunds for 75% of amount of credit n excess of liability and 25% carried forward for five years. Revenue gains relative to the current law baseline expectation drop off to the $90 million range in FY18 and beyond.

Some additional collections may occur in the latter months of FY16, associated with the inventory taxes paid in 2015, both the amounts available to offset tax liabilities and the amount refundable in excess of liabilities). Roughly 11% of the typical filings by fiscal year. This potential amount might be as much as $58 million, although filers may delay filings with extensions into FY17 since they would effectively owe more tax under this bill. Revenue effects of the bill, especially in the first three years are highly uncertain.

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

John D. Carpenter
Legislative Fiscal Officer