



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 16** SLS 161ES 78
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.: **w/ PROP SEN COMM AMD**
 Sub. Bill For.:

Date: February 24, 2016 7:33 PM	Author: ALLAIN
Dept./Agy.:	Analyst: Greg Albrecht
Subject: Ad Valorem Taxes - Local Investment Fund	

TAX/AD VALOREM OR SEE FISC NOTE GF RV Page 1 of 1
 Constitutional amendment to provide for ad valorem taxes paid on certain property. (Item #31)(2/3 - CA13s1(A))

The bill prohibits a tax credit against state income and franchise tax for ad valorem taxes paid to local governments on or after January 1, 2016 on inventory held by manufacturers, distributors, and retailers, except those taxpayers paying less than \$10,000.

Creates the Local Investment Fund, and beginning FY18, to annually receive the lesser of \$500 million or 15.625% of total state sales tax revenue generated during the second immediately preceding fiscal year based on the rates and bases existing as of June 30, 2015. The fund's receipts are to distributed annually back to each parish on the basis of total assessed value of property.

Exempts from ad valorem tax inventory property and OCS vessels affected by the state tax credit.

To be submitted to the electors at the statewide election to be held on November 8, 2016. Effective January 1, 2017.

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.	\$55,000,000	(\$4,000,000)	\$51,000,000	\$88,000,000	\$125,000,000	\$315,000,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$486,000,000	\$488,000,000	\$486,000,000	\$486,000,000	\$1,946,000,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	(\$168,000,000)	(\$209,000,000)	(\$256,000,000)	(\$305,000,000)	(\$938,000,000)
Annual Total	\$55,000,000	\$314,000,000	\$330,000,000	\$318,000,000	\$306,000,000	\$1,323,000,000

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Local ad valorem tax paid on inventory and OCS vessels in December 2016 would no longer be eligible for a tax credit against state taxes. Under legislation passed in 2015, roughly 25% of the inventory component that was formerly refundable has already been effectively denied and accrues to the benefit of the state fisc. This bill appears to deny the entire credit, both the portion offsetting tax liability and the portion refunded.

Based on inventory and OCS vessel credit claims in FY14 growing by 6.5% per year and the pattern of tax return filings claiming these credits, the amount of credits not already denied by the state that would now be denied under this bill is approximately \$55 million in FY17, \$482 million in FY18, \$539 million in FY19, \$574 million in FY20, and, \$611 million by FY21. These amounts would be reflected in an increase in state revenue receipts.

Beginning in FY18 the newly created Local Investment Fund would receive its first deposit. The calculated option of 15.625% would apply to FY16 state sales tax receipts, currently forecast at \$3.112 billion, resulting in \$486 million of state general fund revenue dedication to the new fund (the lesser of this calculation or \$500 million). Based on the current official forecast, the FY19 dedication would be \$488 million, then in FY20 \$486 million, and a comparable \$486 million in FY21.

The table above appears odd, but is the net effect of these flows. SGF receipts are \$55 million in FY17 because the credit is disallowed for 2016 property tax payments (only a fraction of 2016 tax year returns will be filed within FY16). The \$4 million loss to the general fund in FY18 is the net of \$482 million additional revenue due to denying credits and allocating \$486 million to the Local Investment Fund. The SGF experiences net gains in FY19 - FY21 as state revenue gains from denying credits grows while allocations to the new dedicated fund stay approximately stable.

Local funds in the table are the net result of the loss of direct property tax revenue from the exemptions in the bill, and the distributions they receive from the state out of the new dedicated fund. In FY18 \$486 million - \$654 million = -\$168 million, FY19 \$488 million - \$697 million = -\$209 million, FY20 \$486 million - \$742 million = -\$256 million, and FY21 \$486 million - \$791 million = -\$305 million

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