LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 6** SLS 162ES 16
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 13, 2016 9:29 AM
Author: MORRELL
Dept./Agy.: Revenue
Subject: Inventory Tax Credit
Analyst: Greg Albrecht

TAX/AD VALOREM OR +$50,000,000 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. (gov sig) (Item #47)

Present law allows a full refundable tax credit against state corporate income and franchise tax liabilities for local ad valorem taxes paid on inventory property if the tax paid is less than $10,000. For local tax paid over $10,000, the available tax credit is allowed to fully offset state tax liability, but any credit available in excess of state liability is limited to a 75% refund with the 25% balance available as a five-year carry-forward against future state tax liabilities.

Proposed law allows 75% of available credit amount in excess of tax liability to be refunded for tax payers whose ad valorem tax paid was between $10,000 and $500,000. For taxpayers with ad valorem tax over $500,000, none of the excess credit amount will be refundable, and all of it will be subject to a five-year carry-forward against future state tax liabilities.

Applicable to claims made on returns filed on or after July 1, 2016, regardless of the tax year to which the return relates.

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.	$50,000,000	$50,000,000	$50,000,000	$50,000,000	$50,000,000	**$250,000,000**
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	**$50,000,000**	**$50,000,000**	**$50,000,000**	**$50,000,000**	**$50,000,000**	**$250,000,000**

EXPENDITURE EXPLANATION

The bill's changes will entail changes to tax processing systems that the Department estimates amount to approximately $60,000 of staff time. In addition, this change will add to the calculations necessary to figure the utilization of this credit. Along with previous changes the Department expects considerable time and effort involved with taxpayer inquiries and aid in compliance and enforcement. These administrative costs, while implicit in nature, result in the supplanting or delay in other activities/functions of the agency.

REVENUE EXPLANATION

The Department of Revenue queried all individual and corporate returns received in FY14. No individual returns claimed the credit over $500,000, and only 105 corporate returns did so. These returns claimed $204 million of credit, with $64 million offsetting liabilities and $139 million in excess of tax. Of this excess, the refundable portion of the first $500,000 of credit totaled $31.8 million while the portion that would be carried forward, and reflects the effective state revenue gain under this bill, was $107.7 million. However, a material portion of this revenue gain has already been captured as a result of Act 133 of 2015, which established the current law split of 75% refunding of excess credit and 25% carry-forward of excess credit for all taxpayers with more than $10,000 of ad valorem tax paid on inventories. Applying Act 133 provisions to the FY14 returns for these particular taxpayers generated about $35 million of carry-forward, generating an additional $73 million of revenue beyond that generated by Act 133. A further reduction of $23 million is made reflecting the effects of Act 23 of 2016 ES1 (discussed below), leaving $50 million of estimated revenue gain associated with this bill.

An additional consideration should be noted as to the effects of Act 23 of 2016 ES1. That bill changed the prioritization order of credit utilization (other than the inventory credit). At the time, the Department had limited capability to calculate the effect of such a re-prioritization, and with the still largely refundable inventory credit left to a sixth priority, Act 23 was presumed to have little effect. Since then the Department has been able to develop some calculating capability of credit re-prioritization and estimates that Act 23 increases net revenue with respect to the inventory credit by some $23 million. That effect is backed out of the estimated revenue gain above although some of that gain should be attributable to Act 23 rather than this bill, but has not been incorporated into state revenue forecasts.

Finally, caution should be taken as to the reliability of these incremental estimates and their addition to the base forecast for corporate receipts. Significant changes have been made to corporate taxation since the 2015 session, and first year return filings reflecting those changes has not been completed. The reliability of incremental estimates is highly questionable, and the overall corporate tax base and receipts have been exceedingly weak. In addition, this bill applies its changes to all returns filed on and after July 1, 2016, regardless of the tax year to which the return applies. This should work to generate more immediate revenue, but until the 2015 session was highly unusual applicability of corporate tax law change. These estimates are made with a very low degree of confidence.

Senate Dual Referral Rules House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}
☒ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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