LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 10** SLS 162ES 6
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 15, 2016 9:05 AM
Author: WARD
Dept./Agy.: Revenue
Subject: Inventory Tax Credit
Analyst: Greg Albrecht

TAX/AD VALOREM OR +$146,000,000 GF RV See Note

Provides for the confidentiality of tax records and the definitions of inventory and manufacturer for purposes of the tax credits for ad valorem taxes paid to local governments. (See Act) (Item #47)

For purposes of the tax credit against state income and franchise tax, inventory shall not include inventory held by manufacturers receiving the ad valorem industrial tax exemption. The definition of manufacturer is also modified. Affected inventory would not be eligible for state tax credit.

These provisions apply to all claims for these credits on any return filed on or after July 1, 2016, regardless of the taxable year to which the return relates. Amended returns are properly claimed credits on the original return are not affected.

The bill also contains modifications to confidentiality provisions in statute that are effective upon the 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.	$146,000,000	$146,000,000	$146,000,000	$146,000,000	$146,000,000	**$730,000,000**
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	**$146,000,000**	**$146,000,000**	**$146,000,000**	**$146,000,000**	**$146,000,000**	**$730,000,000**

EXPENDITURE EXPLANATION

The bill’s changes will entail changes to tax processing systems in the Department of revenue, and while not estimated at this time, generally costs several thousand or tens of thousands of dollars of staff time. These administrative costs, while implicit in nature and typically absorbed within the existing agency budget, result in the supplanting or delay in other activities/functions of the agency.

REVENUE EXPLANATION

The bill appears to deny state tax credits for local ad valorem taxes paid on inventory property by manufacturers receiving the benefits of the ad valorem industrial tax exemption. This will result in a substantial gain to state net tax receipts as offsets to state tax liability and refunds over liabilities are not allowed. According to data supporting a June 1, 2016 report issued by the Legislative Auditor’s Performance Audit Services manufacturers receive some 42% of all inventory tax credits each year, or about $185 million of inventory credits in FY14. Assuming all manufacturers claiming the credit are also receiving the ad valorem industrial tax exemption, this is the potential amount of credit the bill targets for denial each year.

However, Act 133 of 2015 substantially modified the inventory credit, resulting in about a 21% reduction in the total of inventory credits expected to be claimed each year. Thus, this bill may result in approximately $146 million of inventory credit denial. A portion of this gain to the state fisc is actually associated with Act 23 of the 2016 ES1 session (roughly $7 million based on a 4% factor implied by Revenue Dept analysis of other bills). This effect is included above since it was not available to be incorporated into the official revenue estimates at the time of the enactment of Act 23.

Since the bill is applicable to all tax returns to be filed on or after July 1, 2016, regardless of the taxable year to which the returns relate, its revenue effects are immediate.

There may be some manufacturing facilities in the state not receiving the ad valorem industrial tax exemption whose inventory would still receive the state tax credit. The Department of Revenue is attempting to make such an assessment. In addition, presumably, affected firms could opt to not receive the ad valorem industrial tax exemption and, consequently, still be eligible to receive the benefits of the state inventory tax credit. The extent to which such tradeoffs will be made is speculative. Both of these situations would work to reduce the potential revenue gain from the state.

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

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