LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 10** SLS 162ES 6

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

REVISED

Date: June 19, 2016 4:55 PM

Author: WARD

Dept./Agy.: Revenue

Subject: Inventory Tax Credit

Analyst: Greg Albrecht

TAX/AD VALOREM EG +$68,000,000 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.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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						

REVENUES	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**5 -YEAR TOTAL**
State Gen. Fd.	$68,000,000	$68,000,000	$68,000,000	$68,000,000	$68,000,000	**$340,000,000**
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	**$68,000,000**	**$68,000,000**	**$68,000,000**	**$68,000,000**	**$68,000,000**	**$340,000,000**

EXPENDITURE EXPLANATION

It is unclear how implementation will occur, in that two different state departments administer the two affected programs. Since firms are presumably required to select to participate in one or the other of the two programs, coordination will be required to confirm the non-participation in the un-selected program. In addition, the industrial tax exemption is granted via 5-year contracts while the bill is effective for all tax returns filed on or after July 1, 2016 without regard to the related tax year. It is unclear how the provisions of the bill will be administered, and whether the potential estimated revenue effects will actually occur in the given fiscal year time frames.

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 will not be allowed. The Department of Revenue (LDR) obtained a list of companies participating in the industrial tax exemption program from the Department of Economic Development (LED). LDR then manually compared the names of firms on the LED list to the names of firms on corporate tax returns. Via this process, LDR was able to verify some $86 million of inventory credit taken in FY14 by firms that were also receiving the industrial tax exemption. Should all of these firms opt to retain the industrial tax exemption and forego the inventory tax credit, gross inventory credit foregone would be this $86 million.

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 $68 million of inventory credit foregone. The Department has had difficulty assessing the effects of Act 23 of the 2016 ES1 session which re-prioritized the utilization order of credits, but which should result in capturing some of the revenue gain calculated above. Since the effects of Act 23 have not been separately incorporated into state revenue estimates, they are effectively included in the estimate above, again assuming all affected firms opt to forego the inventory credit.

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, and the LDR analysis is based on a fiscal year of credits, its revenue effects are assumed to be immediate. However, this credit has been substantially altered prior to this bill, and base information reflecting the effects of those prior changes is not yet available. Estimates of the effect of this bill should be viewed with considerable caution.

This revised estimate is substantially different from the initial estimate, and is based on a matching of industrial tax exemption participants and corporate tax returns from two different agencies that had to be done manually. This process was unable to be completed within the timeframe of bill introduction and originating committee and floor hearing. Initial estimates were based on broad aggregate information, without the benefit of actual firm-by-firm review, and only allowed a result by inference.

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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