LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 6** SLS 162ES 16
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.: **w/ PROP CONF COMM AMD**
Sub. Bill For.:

Date: June 23, 2016 6:29 PM
Author: MORRELL
Dept./Agy.: Revenue
Subject: Inventory Tax Credit
Analyst: Greg Albrecht

TAX/AD VALOREM RE +$17,300,000 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 if the tax is less than $10,000. For tax paid over $10,000, the tax credit is allowed to offset state tax liability, but any excess credit is limited to a 75% refund with the 25% balance allowed a five-year carry-forward against future tax liabilities. Proposed law allows 100% of available excess credit to be refunded for tax payers whose ad valorem tax paid is up $500,000. For tax between $500,000 and $1 million, 75% of the excess credit will be refundable and 25% nonrefundable but allowed a five-year carry-forward against future state tax liabilities. For tax over $1 million, the first $750,000 of excess will be refunded with the remaining balance allowed a five-year carry-forward. Consolidated federal tax filers are treated as a single taxpayer. Businesses formed or registered after 4/15/16 with $10,000 or less of ad valorem tax shall be refunded 100% of excess credit; with tax from $10,000 to $1 million are refunded 75 of excess credit with the balance allowed a five year carry-forward. Applicable to returns filed on or after July 1, 2016.

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.	$17,300,000	$17,300,000	$17,300,000	$17,300,000	$17,300,000	**$86,500,000**
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	**$17,300,000**	**$17,300,000**	**$17,300,000**	**$17,300,000**	**$17,300,000**	**$86,500,000**

EXPENDITURE EXPLANATION

The bill's changes will entail changes to tax processing systems that the Department initially estimated amount to approximately $60,000 of staff time. More complicated calculation structures will entail more costs. 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 non-manufacturing corporate returns received in FY14 that claimed the inventory credit. No individual returns were queried. The inventory credit associated with these returns was recalculated under the provisions of this bill and compared to the associated credit under the provisions of current law (Act 133 of 2015). The result was carried-forward credits under this bill that were some $17.3 million greater than under current law. Since, in the aggregate, these firms consistently have tax liabilities insufficient to exhaust all of the credit available to them, this carry-foward amount is effectively the state's revenue gain from the bill.

The bill provides a different credit structure for firms with up to $10,000 of affected ad valorem tax payments and formed before and after April 1, 2016. No attempt has been made to speculate as to the fiscal effect of these provisions.

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.

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.

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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