LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: June 28, 2016 4:45 PM
Author: WARD
Dept./Agy.: Revenue
Subject: Inventory Tax Credit
Analyst: Greg Albrecht

TAX/AD VALOREM EN +$57,000,000 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)

Present law allows available inventory credit in excess of state income and franchise tax liabilities to be partially refunded to the taxpayer (75% of the excess) and partially carried forward (25% of the excess) for use against tax liabilities in up five subsequent years.
Proposed law provides that if the inventory credit available to a manufacturer (holding inventory that is related to the business of the manufacturer) is greater than the firm's state income and franchise tax liability, the excess shall not be refunded, but may be carried forward as a credit against tax liabilities in five subsequent years.
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. 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.	$57,000,000	$57,000,000	$57,000,000	$57,000,000	$57,000,000	**$285,000,000**
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	**$57,000,000**	**$57,000,000**	**$57,000,000**	**$57,000,000**	**$57,000,000**	**$285,000,000**

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 will be compounded by other measures affecting this credit which add to its complexity, While implicit in nature and typically absorbed within the existing agency budget, such costs result in the supplanting or delay of other activities or functions of the agency.

REVENUE EXPLANATION

The bill appears to convert the inventory tax credit from a partially refundable credit under current law to one which is entirely nonrefundable for manufacturers holding inventory related to their manufacturing business and receiving the ad valorem industrial tax exemption. This will result in a gain to state net tax receipts as refunds over annual 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. Through 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. Of this amount of credit, $14 million was used to offset tax liabilities, leaving some $72 million of excess credit available to be refunded.

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 $57 million of inventory credit foregone by manufacturers in the aggregate, since these taxpayers consistently have annual tax liabilities insufficient to exhaust all credits available to them. 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 could 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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