LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **SB 2** SLS 23RS 38
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 25, 2023 8:17 PM | **Author:** ALLAIN
Dept./Agy.: Revenue
Subject: 5 year phase-out of CFT and codify ITEP provisions | **Analyst:** Deborah Vivien

TAX EXEMPTIONS EG SEE FISC NOTE GF RV See Note

Constitutional amendment to phase out the tax on inventory and establish the maximum allowable exemption for the industrial property tax exemption program. (2/3 - CA13s1(A))

Current Constitution subjects inventory to a local ad valorem tax unless specifically exempt. The state offers a refundable income and franchise tax credit of 75% of the inventory taxes paid up to $750,000 (100% credit if total is under $500,000) with the remaining 25% carried forward for 10 years. Credit is non-refundable for the Industrial Tax Exemption Program (ITEP) recipients. Current law authorizes by Executive Order JBE 2016-73 an ITEP exemption of 80% of ad valorem taxes for manufacturing facilities for 5 years with a 5 year renewal option with state and local approval required. Upon expiration of the Executive Order, a reversion to the current constitution authorizes the state to exempt certain manufacturing facilities from 100% of ad valorem taxation without local approval for 5 years with a 5 year renewal option.

Proposed law phases out the inventory tax in equal percentages (20% annually) over 5 years, beginning with taxes due in 2024. Proposed law also amends the ITEP exemption to allow a permanent 80% exemption (60% for school related millages) with state approval for contracts and renewals entered into on or after January 1, 2024, for a five year term with optional renewal **up to** 5 additional years.

To be submitted to the electors at the statewide election to be held on October 14, 2023.

EXPENDITURES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	$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	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total						

REVENUES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$10,000,000	$63,000,000	$121,000,000	$179,000,000	**$373,000,000**
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	DECREASE	DECREASE	DECREASE	DECREASE	**$0**
Annual Total	**$0**					**$0**

EXPENDITURE EXPLANATION

Local governments may have expenses related to system changes and customer service due to the multi-year phase-out of the inventory tax. The Secretary of State may incur minimal ballot processing costs associated with this measure. As a regular practice, the Secretary of State typically budgets for up to 10 constitutional amendments and statewide propositions for the fall statewide elections. To the extent the ballot includes more than 10 amendments and statewide propositions, the Secretary of State may require additional SGF resources for the October 14, 2023, statewide election. Any expenditure impact would be realized in FY 24.

REVENUE EXPLANATION

INVENTORY TAX ELIMINATION

Local Inventory Tax Elimination

The 2022 Annual Report of the La Tax Commission reports the assessed value of inventory at $4.115 billion. Based on the report's distribution of inventory valuation across parishes, and the parishwide effective millages, the total amount of ad valorem tax affected by the bill is currently approximately $443.7 M. Since ad valorem taxes are typically payable in December each year, the first fiscal year of local revenue loss would be FY 25 (assuming that "due in 2024" means taxes due for tax year 2024 as payment deadlines may expand across tax years), at 20% of the taxes associated with inventories, or $88.7 M, in FY 26 loss at 40% or $177.5 M, in FY 27 at 60% or $266.2 M, in FY 28 at 80% or $355 M and in FY 29 and thereafter at 100% or $443.7 M per year. No growth has been assumed for these valuations and the local revenue loss, although significant annual growth is possible. Though these valuations have exhibited significant long-run trend growth in the past, valuations have stayed relatively consistent over the last three years (except a decline in 2021, presumably due to supply chain and pandemic issues). Inventory valuations remain below the pre-pandemic level of 2019. An effective date of January 1, 2024, may complicate implementation in Orleans as taxes are due in advance.

State Inventory Tax Credit Elimination

There is a significant effect on state net tax receipts through the state tax credit for ad valorem taxes paid on inventory. The state credit has nonrefundable and refundable components, and has averaged some $290 M per year for the latest reported three-year period (FY 20 - FY 22). This state tax credit would decline as the ad valorem tax is phased out. A simple model of this credit reduction would result in comparable percentage reductions in the credit as the reductions in the ad valorem tax, with recognition of the state tax filing pattern for affected firms. For example, presuming a 50% reduction in the ad valorem tax, in the first year of the phase-out, results in a 20% reduction in the state credit ($58 M) realized over three fiscal years (18% in the first fiscal year, 90% in the second, and 100% by the third fiscal year). This pattern repeats for each year of ad valorem tax phase-out, and accumulates the credit phase-out until the entire amount of available credit is no longer granted. This model results in an estimated amount of credit reduction in each fiscal year, and consequently net state tax receipts increase, in the table above. The state net receipts gains continue into the out-years beyond the fiscal note horizon at $237 M in FY 29, $232 M in FY 30, and $29 M in FY 31, at which time the entire inventory tax credit will have been eliminated.

(continued on page 2)

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}

Alan M. Boxberger

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Interim Legislative Fiscal Officer

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CONTINUED EXPLANATION from page one:

REVENUE EXPLANATION (continued)

ITEP Provisions
The bill is compared to the current program, which is operating under an Executive Order authorizing an 80% exemption with state and local approval that will expire with the current administration in January 2024. If the new administration does not issue its own Executive Order, the ITEP program will revert back to current law, which allows 100% exemption without local approval.

Compared to the current program or current law, in the bill local school boards would receive an increase in property tax revenue in the proportion that the school millages are charged against property that is exempt under new or renewal ITEP contracts entered into on or after January 1, 2024. School millages may or may not extend over the entire parish. If an ITEP project is located in an area upon which a school millage is levied, property tax revenue generated from that school millage will increase. The remaining impact to local government would depend on the expiration of the Executive Order. School millages aside, the bill permanently sets the ITEP exemption at 80% but removes local approval. Compared to the current program, the bill creates effectively no change to local revenue (without consideration for changes due to the loss of local approval). However, if the Executive Order is not reissued by a new administration under the same parameters, local revenue could decline as new and renewal contracts after 1/1/24 would be subject to 100% exemption.

Data for contracts up for renewal beyond January 1, 2024, is not available without further research. New contracts are subject to future project activity, which cannot be determined. For illustrative purposes, the 2022 LA Tax Commission Annual Report indicates that $4.4 B was exempt from property tax under ITEP in 2022. Some subset of that amount related to education millages on new or renewal contracts entered into on or after January 1, 2024, would no longer be exempt under the bill.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 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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