LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 598** HLS 25RS 658
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 25, 2025 7:04 PM
Author: ECHOLS
Dept./Agy.: Department of Revenue
Subject: Income Tax Credit: Certain Manufacturing Industries
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TAX CREDITS OR DECREASE GF RV See Note
Authorizes income tax credits for businesses within certain manufacturing industries

Proposed law allows a nonrefundable income tax credit for qualified manufacturing and productive equipment property used in motor vehicle manufacturing, aerospace products and parts manufacturing, or medical equipment and supplies manufacturing. The credit amount is calculated as 0.5% to 2.5% of the total aggregate bases of property acquired or constructed by the taxpayer in increments of 0.5% depending on the classification of the property as 3-yr, 5-yr, 7-yr, 10-yr, or 15-yr depreciation. The credit issued to each taxpayer is limited to $10 M per taxable year. No cap exists on the aggregate amount of credits that may be issued or claimed each year. Unused credits may be carried forward for up to ten years. Taxpayers who claim the credit are not eligible for any other state tax credit or any state tax exemption, exclusion, deduction, rebate, or any other state tax preference for activity for which the taxpayer receives this credit.

Applicable to tax years beginning on or after January 1, 2026. No credits may issued after December 31, 2031.

EXPENDITURES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	**$173,384**	**$98,812**	**$101,776**	**$104,830**	**$478,802**
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**	**$173,384**	**$98,812**	**$101,776**	**$104,830**	**$478,802**

REVENUES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	$0	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**					**$0**

EXPENDITURE EXPLANATION
The bill is anticipated to increase $173,384 SGR and one (1) T.O. in the Department of Revenue (LDR) in FY27. One time costs of $77,450 are expected in FY27 related to computer system development, modification, and testing. LDR reports one Revenue Tax Auditor I with salary and related benefits of $95,934 will be necessary beginning in FY27 to review and manually verify all tax returns claiming the credit. LDR reports the ability to absorb this amount within its current budget but may require additional resources if the aggregate impact of all bills enacted during this session is substantive.

REVENUE EXPLANATION
The bill offers a nonrefundable income tax credit to certain qualifying taxpayers for the manufacturing and productive equipment property involved in motor vehicle manufacturing, aerospace products and parts manufacturing, or medical equipment and supplies manufacturing. To the extent qualifying purchases are made and the credit is claimed, the bill is anticipated to decrease SGF revenue* by an indeterminable amount beginning in FY27 when 2026 returns are filed. Credits issued are limited to $10M per taxpayer annually. No cap exists on the total amount of credits issued or claimed each year.

The anti-stacking provisions of the bill suggest that businesses who claim the investment credit are ineligible for the manufacturing machinery and equipment sales tax exclusion and other state tax incentives, which is likely to limit the number of credits claimed.

The amount of the credit issued to each qualified taxpayer is expressed as a percentage of the amount paid for qualified manufacturing and productive equipment property (including certain software), but the exact percentage is determined by the applicable recovery period for the property provided in the Internal Revenue Code. The percentages range from 0.5% to 2.5% of the total amount paid depending on the classification of the property (3-yr, 5-yr, 7-yr, 10-yr, or 15-yr).

LFO has no basis for estimating the total number of credits that may be awarded and claimed under the bill, due to uncertainty concerning the number of firms who operate in the three industries eligible for the credit, the unknown amount of qualifying machinery and equipment that might be purchased, the taxpayer's income tax liability to claim the credits against, and potential participation in other state tax incentives/programs.

* The SGF impact may originate as the LDR retention of 1% of income initially classified as SGR but ultimately reverted to the SGF for use in the budget. Should LDR reversions cease, this could become an SGR impact. Further, reductions may accrue to Revenue Stabilization Fund for corporate income tax claims, depending on aggregate collections.

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

House
- [x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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