

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 258** SLS 13RS 676

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 26, 2013 4:59 PM	Author: CLAITOR
Dept./Agy.: Revenue/Tax Commission	Analyst: Deborah Vivien
Subject: Audit of Inventory Assessments	

TAX/TAXATION

OR INCREASE GF EX See Note

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Authorizes the Department of Revenue to appeal to the Louisiana Tax Commission regarding the value of an assessment of inventory for purposes of the inventory tax credit. (gov sig)

Current law allows a refundable state income tax credit for the full amount of inventory or natural gas ad valorem tax paid at the local level. The taxpayer pays the local assessor then claims 100% of the taxes paid on either a corporate or personal income tax return.

Proposed law retains current law and allows the Department of Revenue to refer those inventory or natural gas tax credits that appear to have an inflated fair market value to the Tax Commission for review. If the Tax Commission finds that the assessment was greater than 5% of fair market value, the assessor is directed to reduce the tax roll and LDR will reduce the credit. Presumably, the assessor will refund the amount of the reduced credit to the taxpayer who will then be expected to return it to the state.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

This bill authorizes the Department of Revenue (LDR) to refer inventory or natural gas storage claims to the Tax Commission for review of the assessed value as compared to a fair market value. There is no cap on the number of cases that may be sent to the Tax Commission for review nor any referral criteria upon which to base an estimate of the claims that Tax Commission will have to review.

In Tax Year 2012, there were roughly 160,000 credits claimed on corporate returns (additional claims were filed against personal income tax). Should all 160,000 credits claimed in TY 12 be sent to the Tax Commission for review of the fair market value determination, an extensive growth in Tax Commission workload would occur, which would require additional funding and personnel to accommodate the requests in a timely manner. Audits to determine fair market value of inventory or natural gas storage typically require extensive research and time. Tax Commission has determined that each additional auditor would cost roughly \$100,000 per year for salary, benefits, travel, supplies, etc. The aggregate cost of administration will depend on the number and complexity of cases referred to the Commission and the time constraints in providing a finding. Without resources, the Tax Commission may be forced to simply accept the assessor's designation as a fair calculation.

REVENUE EXPLANATION

Under audit, LDR typically takes the official assessment from the local assessor as indication of a credit based on a legitimate fair market value, deferring to the assessor's valuation. This bill allows LDR to refer any inventory or natural gas tax credit to the Tax Commission for review of the assessment to determine whether the claim is within 5 percent of a fair market value determination.

There is no limit to the number of credit cases LDR can refer to the Tax Commission. During Tax Year 2012, about 160,000 inventory credits were claimed for a total of almost \$280 M (claims filed against personal income tax are not included). It is not known how many of the cases potentially are assessed more than 5% of what the Tax Commission's calculation of fair market value would be. The credit is paid from SGF, thus to the extent that the credit is disallowed and the funds are recaptured, SGF will increase.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S}
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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