LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 712** HLS 13RS 1557
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 5, 2013	12:33 PM	**Author:** JACKSON, K
Dept./Agy.: Revenue		
Subject: Reduces credits with a budget deficit trigger		**Analyst:** Deborah Vivien

TAX CREDITS OR SEE FISC NOTE GF RV

Requires the secretary of the Dept. of Revenue to uniformly reduce the amount of tax credits in a year of a budget deficit

Proposed law imposes a mandatory reduction in the amount of credits earned or granted for all statutory income tax and franchise tax credits in the revised statutes, except those with Constitutional protection or mandate, if a budget deficit of at least $500 M is projected. If the deficit is $500M-$750M, the reduction is 5%; $751-$1B, the reduction is 10%; greater than $1B, the reduction is 15%.

Effective July 1, 2013.

EXPENDITURES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	$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**

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	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

There would be expenses by the Revenue Department to modify tax systems to accommodate the potential reduction in these credits as a whole; large one-time set-up and then small recurring if/when implemented. These types of modifications typically involve workload costs, plus additional taxpayer inquiries and guidance. Costs will be higher in this case since numerous credits are affected, and more taxpayer inquiries are likely. The Department anticipates annual system alterations, but a one-time effort to prepare systems for repeated implementation would seem more reasonable.

REVENUE EXPLANATION

In the event of a projected budget deficit of $500M or greater, the bill appears to affect about 79 programs, some with more than one credit, according to the Department of Revenue. Presumably the reduction would occur only in the fiscal year in which the deficit occurs and will only be enacted once per year. The bill will impact in the year in which the deficit occurs, the amount of which is not predictable.

To get a sense of the potential revenue effect of the bill, fiscal year realizations of those credits were reviewed from the Revenue Department's Tax Exemption Budget. This exercise results in an approximation of total credit costs in FY14 and beyond of some $1.2 billion. A 5% reduction in this total would be expected to increase SGF by about $60 million, if a deficit of $500M-$750M is projected. If the budget deficit is projected to be $751M-$1B, the estimated impact would double to $120M, which is 10%. With a projected deficit greater than $1B, the estimated impact would increase to $180M.

While the bill affects numerous credits, the bulk of the dollars involved are associated with only a few credits. For example, about 31% of the total is attributable to the credit that reimburses firms for local property taxes paid on inventories. That share increases to 35% when the other similar ad valorem tax credit reimbursements are included (offshore vessels, land-line telephone companies, and natural gas storage facilities). The motion picture credits/rebates make up 19% of the total, net income taxes paid to other states 7%, insurance company premium credit 5% (assuming that 20% of the reported amount is available), the Citizens Insurance assessment 4%, Enterprise Zone jobs and investment credits 4%, earned income tax credit 4%, historic structure rehabilitation 3%, and New Markets tax credits 4%. All other affected credits make up the 15% balance of the total.

NOTE: The dollar estimates above are only meaningful if the bill intends to reduce credit benefits claimed on income tax and franchise tax, regardless of when the activity that generated the credits occurred or when the credits were received by the taxpayer. In addition, the estimate assumes all components of a benefit are reduced; credit, rebate, buyback etc. Activities that generate tax credits can vary from year-to-year, and consequently the actual revenue associated with a reduction of the credits will vary.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F) >= $500,000 Annual Fiscal Cost {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}

Gregory V. Albrecht
Gregory V. Albrecht
Chief Economist