LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 177** SLS 15RS 265
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 22, 2015 9:03 AM **Author:** ADLEY
Dept./Agy.: Tax Commission / Local Government
Subject: Exempt Inventory & Natural Gas From Property Tax **Analyst:** Greg Albrecht

TAX EXEMPTIONS OR -$518,000,000 LF RV See Note

Constitutional amendment to exempt from ad valorem property taxes inventory held by manufacturers, distributors, and retailers, and natural gas held, used, or consumed in providing natural gas storage services or operating natural gas storage

Current law {Art. VII, §21} provides that "...the following property and no other shall be exempt from ad valorem taxation:", followed by a listing of various types of property which are exempt from property tax.

Proposed law adds to that list of exempt property inventory held by manufacturers, distributors, and retailers, as well as natural gas used in storage facilities. Effective January 1, 2016.

To be submitted to the electors at the statewide election on October 24, 2015.

EXPENDITURES	2015-16	2016-17	2017-18	2018-19	2019-20	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	2015-16	2016-17	2017-18	2018-19	2019-20	5 -YEAR TOTAL
State Gen. Fd.	$0	$60,100,000	$547,000,000	$582,000,000	$620,000,000	**$1,809,100,000**
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	($518,000,000)	($551,000,000)	($586,000,000)	($624,000,000)	**($2,279,000,000)**
Annual Total	**$0**	**($457,900,000)**	**($4,000,000)**	**($4,000,000)**	**($4,000,000)**	**($469,900,000)**

EXPENDITURE EXPLANATION

The Department of Revenue (LDR) will incur costs for computer system modification and testing, tax form redesign, and tax payer inquiries. These costs are typically small for individual tax law changes (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill proposes to exempt from local property tax the inventory of manufacturers, distributors, and retailers, as well as natural gas used in storage facilities. Since the bill is effective with the 2016 property tax year, and property taxes are typically due/paid by December 31 of the year, local governments will face revenue losses during FY17. The bill exempts only a subset of inventory, although affected inventories are likely a very large portion of total inventory. The Louisiana Tax Commission annual report implies that for 2014 property taxes on all inventory was about $456 million (parishwide millages applied to assessed values). The affected amount of property tax on natural gas is proxied by the state credit amount granted for the local taxes paid; approximately, $5 million for natural gas. Only the inventory amounts have exhibited strong and persistent growth (at least 6.5% per year). Thus, the total amount of local property tax foregone in FY17 is estimated at $518 million. That growth is applied to inventory, with the fixed values for the other properties added to project estimates of local revenue loss through the fiscal note horizon. The bill does not prohibit millage adjustments. Thus, some portion of this local revenue loss could be alleviated by effectively shifting the tax burden onto other properties.

The bill also has an effect on state receipts in that the amount of local tax paid on inventory property is fully reimbursed by the state through a 100% refundable credit against state income & franchise tax liabilities. The exemption of inventory from local property taxation will effectively eliminate the credit against state taxes, resulting in greater state net tax receipts. The effect on the state fisc is reflected in the amount of state tax credit claimed; some $457 million during FY14. Growth in inventory credit amounts have exhibited an even faster pace than valuations; averaging some 13.5% since 2004, but appearing to slow somewhat to about 9% in the last couple of years. Ultimately, the growth in valuations should constrain the growth in state credits, and the valuation growth rate was applied to the FY14 credit amount to project the potential state credit effect of the bill through the fiscal note horizon.

A complication to estimating the effect on the state fisc is the fact that fiscal year figures reflect multiple tax years of returns, and only about 11% of claims on returns received in a given fiscal year are associated with the immediately preceding tax year (2015 in this case), with 84% associated with the second preceding tax year (2016 in this case), 4% with the third preceding tax year, and the remaining 1% in even earlier tax years. This means that for the first fiscal year affected, FY17, only one preceding tax period of returns (2016) will not be claiming the credit, resulting in only $60 million of net state tax receipts in FY17, then jumping to $547 million in FY18, $582 million in FY19, and $620 million in FY20 (the latter three estimates were constrained to figures just under the local effect estimate which is largely based on total inventory, but with a small amount of natural gas effect).

Senate | Dual Referral Rules | House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}

☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}

☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

☐ 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}

☒ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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