Louisiana Legislative Fiscal Office Fiscal Notes

LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 366** HLS 15RS 1278
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: April 24, 2015 9:24 AM **Author:** ADAMS
Dept./Agy.: Revenue
Subject: Convert Certain Refundable Credits to Nonrefundable **Analyst:** Greg Albrecht

TAX CREDITS OR +$81,000,000 GF RV See Note
Changes certain refundable tax credits to nonrefundable tax credits

The bill modifies the statutory provisions specific to nine refundable tax credits by deleting language that provides for the refund of credit amounts in excess of tax liabilities, and replaces it with language that limits the annual amount of credits taken in a year to no more than the tax liability for that year. Affected credits are: rehabilitation of residential structures, local property taxes paid on inventory, offshore vessels, and telephone companies, research & development, solar energy installations, milk producers, musical and theatrical productions and infrastructure projects, and the conversion of vehicles to alternative fuels.

Applicable to all income tax years beginning on and after January 1, 2015, and franchise tax years beginning on and after January 1, 2016.

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.	$81,000,000	$554,000,000	$573,000,000	$613,000,000	$659,000,000	**$2,480,000,000**
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	$0	$0	$0	$0	**$0**
Annual Total	**$81,000,000**	**$554,000,000**	**$573,000,000**	**$613,000,000**	**$659,000,000**	**$2,480,000,000**

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 and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided. This bill is changing a variety of credits and will likely incur higher than typical costs to implement.

REVENUE EXPLANATION

The bill converts a variety of tax credits from refundable status to nonrefundable status. The amount of credit in excess of the tax liabilities they are claimed against, personal income tax and corporate income & franchise tax, will not be refunded under this bill. Thus, greater net receipts will be retained by the state. Each of the affected credits has its own pattern with respect to total claims and amounts offsetting tax liabilities, ultimately determining the balance refunded in excess of tax liabilities. In general, inventory credit claims have exhibited strong persistent growth while the other credits are more erratic, as are tax liabilities associated with all of the credits, and do not exhibit consistent trending. Inventory claims growing at 6.5% per year were combined with average amounts for the other credits to generate an expectation of fiscal year total claims starting at $664 million in FY16 and growing to $763 million by FY20. These claims offset an aggregate average amount of tax liability of $109 million per year, leaving balances to be refunded that total some $555 million in FY16 and growing to $654 million by FY20.

A complication to estimating the effect on the state fisc in each particular fiscal year is the fact that fiscal year figures reflect multiple tax years of returns, while the change in the credits starts with a single tax period (the 2015 tax period). Each of these credits exhibits its own distribution of returns received in a single fiscal year that are attributed to each of several preceding tax years. That distribution was examined for each of the credits and applied to each credit's fiscal year refunded balance. Over all the affected credits, 14.6% of fiscal year refunds were attributable to the immediate preceding tax year (in this case, 2015), with 79.6% associated with the second preceding tax year (in this case, 2016), 5.3% with the third preceding tax year, and the remaining .5% in even earlier tax years. The cumulative effect is 14.6% in year 1, 94.2% by year 2, 99.5% by year 3, and 100% by year 4. This means that for the first fiscal year of affect (FY16), only one preceding tax period of returns (2015) will not be refunded claimed credits, resulting in $81 million of net state tax receipts in FY16, then increasing to $554 million in FY17, $573 million in FY18, $613 million in FY19, and $659 million in FY20.

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