



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 89** HLS 15RS 344
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.: **REVISED**

Date: May 1, 2015 12:44 PM	Author: RITCHIE
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Cut Inventory Tax Credit	

TAX CREDITS OR +\$13,000,000 GF RV See Note Page 1 of 1
 Reduces the amount of the inventory tax credit

Current law provides a refundable tax credit against state income and franchise tax of 100% of the ad valorem tax paid to local governments on inventory property.

Proposed law reduces the credit to 75% of the ad valorem tax paid on or after January 1, 2015 and before January 1, 2017.

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.	\$13,000,000	\$115,000,000	\$108,000,000	\$0	\$0	\$236,000,000
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	\$13,000,000	\$115,000,000	\$108,000,000	\$0	\$0	\$236,000,000

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 (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 Louisiana Department of Revenue (LDR) reports that for FY14 credits taken for inventory taxes paid were \$452.7 million. Inventory valuations and credits have exhibited strong and persistent growth, averaging at least 6.5% per year. Thus, the total amount of tax credit expected to be taken in future fiscal years is estimated at \$482 million in FY15, \$513 million FY16, \$547 million FY17, \$582 million FY18, \$620 million FY19, and \$661 million FY20.

Based on the distribution of tax period returns within fiscal year results for this credit, only about 11% of each fiscal year's credits are attributable to the immediately preceding tax year (when the ad valorem taxes were largely paid), and 84% is attributable to the second preceding tax year. That 11%/84% pattern is applied to the fiscal year credit projections above, and then the credit reduction of 10% is applied to each of those results to arrive at a rough estimate of the net state tax receipt gain for each fiscal year, starting with FY16. Thus, for FY16 the gain is about \$13 million (11% of \$482 million multiplied by the 25% credit reduction). For FY17 the gain is about \$115 million (11% of \$513 million multiplied by the 25% credit reduction + 84% of \$482 million multiplied by the 25% credit reduction).

There is a state revenue gain for FY18, as well, because the bulk of credit associated with 2016 ad valorem taxes paid will be claimed on tax returns filed in FY18. For FY18 the gain is about \$108 million (84% of \$513 million multiplied by the 25% credit reduction).

There will be some amount (about 5%) of each of 2015 and 2016 ad valorem taxes paid that will claim state tax credit on returns filed in FY19 and beyond. For simplicity, these trailing balances have been omitted from the analysis above.

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| Senate | <u>Dual Referral Rules</u> | House |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S} |
| <input checked="" 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} | |


John D. Carpenter
 Legislative Fiscal Officer