# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 805** HLS 15RS 1694
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

**Date:** May 8, 2015 4:06 PM
**Author:** ADAMS
**Dept./Agy.:** Revenue
**Subject:** Convert Certain Refundable Credits to Nonrefundable
**Analyst:** Greg Albrecht

TAX CREDITS RE +$111,000,000 GF RV See Note 

Provides for the carry forward rather than the refund of the tax credits for ad valorem taxes paid to local governments

The bill modifies the statutory provisions specific to two refundable tax credits by deleting language that provides for the refund of credit amounts in excess of tax liabilities, and allowing 75% of the excess of credit over tax liabilities to be refunded while the 25% balance is allowed to be carried forward as a credit against subsequent tax year liabilities for up to five years. Affected credits are: local property taxes paid on inventory and natural gas used in storage facilities. Credits are applied against the income tax and the corporate franchise tax.

Applicable to all claims for these credits on any return filed on or after July 1, 2015, regardless of the taxable year to which the return relates.

| **EXPENDITURES** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **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 | $0 | $0 | $0 | $0 | $0 | **$0** |
| **Annual Total** | | | | | | |

| **REVENUES** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | $111,000,000 | $120,000,000 | $128,000,000 | $138,000,000 | $148,000,000 | **$645,000,000** |
| 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** | **$111,000,000** | **$120,000,000** | **$128,000,000** | **$138,000,000** | **$148,000,000** | **$645,000,000** |

**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 modifies the refundable provisions of these tax credits by allowing 75% of the amount of credit in excess of tax liabilities to be refunded (rather than 100% of that excess), and allowing the 25% balance of the excess to be carried forward and applied against tax liabilities for up to five subsequent years.

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. But in each case, material amounts of the total credit available are refunded each year (sufficient tax liabilities are not available to exhaust the credits each year). Thus, while allowing a portion of excess credit amounts to be carried forward maintains exposure of the state fisc to these amounts, it is likely that in the aggregate these excess credit amounts will not be realized. Thus, greater net receipts will be retained by the state.

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 $518 million in FY16 and growing to $664 million by FY20. These claims offset an aggregate average amount of tax liability of $73 million per year, leaving excess amounts to be refunded that total some $445 million in FY16 and growing to $591 million by FY20. The bill allows 75% of these excess amounts to be refunded ($356 million in FY16 to $466 by FY20), and provides that 25% of these excess amounts can be carried forward for future use in the next five years. It is these 25% shares that are effectively retained by the state fisc, increasing net state tax receipts by $111 million in FY16 to $148 million by FY20.

Since the bill makes these provisions applicable to all returns filed on or after July 1, 2015, the full effect of these changes are realized each fiscal year.

Senate / Dual Referral Rules / House

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}
- [x] 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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