LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 664** HLS 15RS 409
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 18, 2015 9:22 AM **Author:** STOKES
Dept./Agy.: Revenue
Subject: Credit For Ad Valorem Tax Paid on Inventory **Analyst:** Greg Albrecht

TAX/INCOME-CREDIT OR +$20,000,000 GF RV See Note
Defines" inventory" for purposes of the tax credit for ad valorem taxes paid on inventory

Current law grants a refundable credit against state income & franchise tax for 100% of the local ad valorem tax paid on inventory property.

Proposed law provides definitions for inventory, and reduces the credit to 65% of ad valorem taxes paid on or after July 1, 2015. Also allows the Department of Revenue to intervene in proceedings related to the valuation or classification of property as inventory for which a credit will be claimed.

Applicable to all 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.	$20,000,000	$172,000,000	$183,000,000	$194,000,000	$208,000,000	**$777,000,000**
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	**$20,000,000**	**$172,000,000**	**$183,000,000**	**$194,000,000**	**$208,000,000**	**$777,000,000**

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 bill includes several provisions defining inventory for purposes of the state credit. It is not clear if these provisions narrow or broaden the amount of property eligible for the credit, or simply clarify existing practice.

Assuming these provisions do not change the base of inventory eligible for the credit, an estimate of the bill's reduction in the credit from 100% to 65% of ad valorem taxes paid can be established based on the existing credit information.

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 35% 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. For simplicity the 5% balance share is omitted in these calculations, meaning that the ramp up in net state receipt gains continues for some fiscal years beyond what is depicted here. Thus, for FY16 the gain is about $20 million (11% of $513 million multiplied by the 35% credit reduction). For FY17 the gain is about $172 million (11% of $547 million multiplied by the 35% credit reduction + 84% of $513 million multiplied by the 35% credit reduction). For FY18 the gain is about $183 million (11% of $582 million multiplied by the 35% credit reduction + 84% of $547 million multiplied by the 35% credit reduction). For FY19 the gain is about $194 million (11% of $620 million multiplied by the 35% credit reduction + 84% of $582 million multiplied by the 35% credit reduction). For FY20 the gain is about $208 million (11% of $661 million multiplied by the 35% credit reduction + 84% of $620 million multiplied by the 35% credit reduction).

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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