LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 6** SLS 162ES 16
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ HSE FLOOR AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 20, 2016 4:40 PM
Author: MORRELL
Dept./Agy.: Revenue
Subject: Inventory Tax Credit
Analyst: Greg Albrecht

TAX/AD VALOREM REF +$13,000,000 GF RV See Note

Provides for the carry forward rather than the refund of a certain portion of the tax credit for ad valorem taxes paid on inventory. (gov sig) (Item #47)

Present law allows a full refundable tax credit against state corporate income and franchise tax liabilities for local ad valorem taxes paid on inventory property if the tax paid is less than $10,000. For local tax paid over $10,000, the available tax credit is allowed to fully offset state tax liability, but any credit available in excess of state liability is limited to a 75% refund with the 25% balance available as a five-year carry-forward against future state tax liabilities.
Proposed law allows 100% of available excess credit to be refunded for tax payers whose ad valorem tax paid is up $500,000. For taxpayers with ad valorem tax between $500,000 and $1 million, 75% of the excess credit will be refundable and 25% nonrefundable but allowed a five-year carry-forward against future state tax liabilities. For taxpayers with ad valorem tax over $1 million, 100% of the first $500,000 of excess credit will be refundable and 75% of the next $500,000 of excess credit. Remaining excess credit is nonrefundable but allowed a five-year carry-forward.
Applicable to claims made on returns filed on or after July 1, 2016, regardless of the tax year to which the return relates. Not applicable to amended returns, provided the credit was properly claimed on the original return.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	$13,000,000	$13,000,000	$13,000,000	$13,000,000	$13,000,000	**$65,000,000**
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**	**$13,000,000**	**$13,000,000**	**$13,000,000**	**$13,000,000**	**$65,000,000**

EXPENDITURE EXPLANATION

The bill's changes will entail changes to tax processing systems that the Department initially estimated amount to approximately $60,000 of staff time. More complicated calculation structures will entail more costs. Along with previous changes the Department expects considerable time and effort involved with taxpayer inquiries and aid in compliance and enforcement. These administrative costs, while implicit in nature, result in the supplanting or delay in other activities/functions of the agency.

REVENUE EXPLANATION

The Department of Revenue queried all individual and corporate returns received in FY14 that claimed the inventory credit. No individual returns were queried. These returns claimed $331.8 million of credit, with $143.7 million offsetting liabilities and $188.1 million in excess of tax. Under current law, Act 133 of 2015, 75% of the excess is refundable or $141.1 million and 25% of $47 million to be carried forward. It is this nonrefundable carry-forward amount that is the potential revenue gain to the state since taxpayers in the aggregate have consistently had insufficient tax liabilities to offset the available credit. Applying the credit structure of this bill to that FY14 data resulted in $59.8 million of credit subject to a five-year carry-forward. Thus, the bill's 3-tiered credit structure results in an additional $13 million of potential revenue gain, not already captured by Act 133 of 2015.

The Department has had difficulty assessing the effects of Act 23 of the 2016 ES1 session which re-prioritized the utilization order of credits, but which should result in capturing some of the revenue gain calculated above. Since the effects of Act 23 have not been separately incorporated into state revenue estimates, they are effectively included in the estimate above.

Since the bill is applicable to all tax returns to be filed on or after July 1, 2016, regardless of the taxable year to which the returns relate, and the LDR analysis is based on a fiscal year of credits, its revenue effects are assumed to be immediate. However, this credit has been substantially altered prior to this bill, and base information reflecting the effects of those prior changes is not yet available. Estimates of the effect of this bill should be viewed with considerable caution.

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

John D. Carpenter
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