LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 62** SLS 202ES 237
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: October 11, 2020 2:46 PM	**Author:** SMITH, G.
Dept./Agy.: Revenue	
Subject: Inventory Credit - Manufacturers	**Analyst:** Greg Albrecht

TAX/AD VALOREM OR -$2,300,000 GF RV See Note

Provides for the refundable portion of the inventory tax credit for certain manufacturers impacted by the 2020 emergencies and disasters. (gov sig) (Item #26)

Current law allows, for manufacturers registered in the state before April 15, 2016 with inventory taxes paid of $500,000 - $1 million, 75% of inventory credit in excess of tax liability to be refundable, with the 25% balance of excess credit non-refundable with a five-year carryforward. Proposed law would make 100% of the excess credit refundable.

Current law allows, for manufacturers registered in the state after April 15, 2016 with inventory taxes paid of $10,000 - $1 million, 75% of inventory credit in excess of tax liability to be refundable, with the 25% balance of excess credit non-refundable with a five-year carryforward. Proposed law would make 100% of the excess credit refundable.

Effective upon governor's signature.

EXPENDITURES	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**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	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**5 -YEAR TOTAL**
State Gen. Fd.	($253,000)	($2,185,000)	($2,300,000)	($2,300,000)	($2,300,000)	**($9,338,000)**
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	**($253,000)**	**($2,185,000)**	**($2,300,000)**	**($2,300,000)**	**($2,300,000)**	**($9,338,000)**

EXPENDITURE EXPLANATION

The Dept of Revenue reported no additional costs associated with this proposed change in the refundability of the inventory credit.

REVENUE EXPLANATION

The Dept of Revenue examined 2018 tax year returns for corporate taxpayers reporting industrial codes (NAICS) that typically contain manufacturers and that had inventory tax credit in excess of tax liabilities. This subset reported refundable credit of $6.8 million. Assuming this credit amount was the result of the current law 75% limitation, then one-third of that amount or $2.3 million is the implied amount of additional tax refunds this bill would allow. This is likely a maximum amount of effect because some filers would be included in the aggregate credit amount but would not have been subject to the 75% limitation due to their lower amounts of eligible inventory taxes actually paid. The realization of each year's additional refund amounts would be typically spread over a 3-year period, with 11% on the immediate tax year 2020 return filing in FY21 ($253,000), 84% in FY22 ($1.932 million), and the last 5% in FY23 ($115,000). This results in an accumulation of additional refunds as additional affected tax years' returns are filed: FY21 $253,000, FY22 $2.185 million, FY23 $2.3 million, then stabilizing in this range for subsequent fiscal years.

Inventory tax credit claims on individual tax returns can not be distinguished with industrial codes, and include types of businesses eligible for the inventory tax credit. On 2018 individual returns, the total reported amount of refundable credit was $10.3 million. Applying the same 75% limitation assumption results in $3.4 million of implied additional tax refunds, but typically spread over only two years by individuals (90% in the immediate year and 10% in the following year).

Since the corporate return estimate is likely overstated somewhat, while some portion of the individual return estimate would be affected by the bill, the fiscal note assumes only the corporate return estimate above and does not include any potential individual return estimate in the overall estimate of state fiscal effect.

Senate — Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Christopher A. Keaton
Legislative Fiscal Officer