# LEGISLATIVE FISCAL OFFICE
## Fiscal Note

Fiscal Note On: **SB 23** SLS 182ES 32

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

**Date:** June 1, 2018 9:32 AM

**Author:** MORRELL

**Dept./Agy.:** Economic Development / Revenue

**Subject:** Convert Investment Rebates To Non-Refundable Credits

**Analyst:** Greg Albrecht

TAX/TAXATION EG INCREASE GF RV See Note 

Changes certain rebates to nonrefundable tax credits. (gov sig)

Present law provides a rebate for sales taxes paid on purchases of qualifying machinery & equipment, and a refundable investment tax credit (Enterprise Zone) or rebate (Quality Jobs) of 1.5% of qualifying construction costs of a business facility.

Proposed law converts the 1.5% refundable investment tax credit or rebate into nonrefundable tax credits with ten-year carry-foward periods, and eliminates the sales tax rebates in both cases. Applicable to advance notifications filed on and after July 1, 2018.

Effective upon governor's signature.

| **EXPENDITURES** | **2018-19** | **2019-20** | **2020-21** | **2021-22** | **2022-23** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | $51,000 | $0 | $0 | $0 | $0 | **$51,000** |
| 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** | **$51,000** | **$0** | **$0** | **$0** | **$0** | **$51,000** |

| **REVENUES** | **2018-19** | **2019-20** | **2020-21** | **2021-22** | **2022-23** | **5 -YEAR TOTAL** |
|---|---|---|---|---|---|---|
| State Gen. Fd. | $0 | INCREASE | INCREASE | INCREASE | INCREASE | **$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** |

**EXPENDITURE EXPLANATION**

The Dept. of Revenue has indicated that the program conversions required by the bill would involve some $51,000 of information technology costs to design, develop, and test the changes to the tax processing systems to implement the bill.

**REVENUE EXPLANATION**

For advance notifications filed on July 1, 2018 and later, the bill eliminates the sales tax rebate option for both programs, and converts the 1.5% investment tax credit/rebate into a nonrefundable credit with a ten-year carry-foward. This will result in an indeterminable increase in net state tax receipts as annual program benefit costs are constrained by tax liabilities of participating firms. Greater net receipt gains should accumulate each year as new projects enter the amended programs while existing projects, receiving existing program benefits complete the programs. An estimate of future net receipt gains are unknown because the Dept. is unable to readily associated existing benefit payments to specific tax return liabilities, since both program benefits are paid out as rebate payments without an associated tax filing.

However, based on analysis of refundable credits done on various tax proposals in the 2015 regular legislative session, it is likely that in the aggregate there is substantially less tax liability against which to charge program benefits than the aggregate of program benefits available. Although there will be particular participants with sufficient tax liability available to immediately receive the entire program benefit they are due, it is likely that in the aggregate there will be a substantial amount of annual rebate costs for the investment credit component of the programs that could be saved. The bill appears to provide for a ten-year carry-foward of unused credits. Thus, state fisc exposure continues to exist for projects that do not receive all their benefit in the first available year. However, again, in the aggregate, annual tax liabilities are unlikely to be sufficient to absorb the available amount of program benefits, resulting in ongoing cost savings to the state fisc. Those costs have ranged from $28 million to $99 million over the last four complete fiscal years.

In the last fours years, the sales tax rebates associated with the programs has ranged from $18 million to $32 million. Since this option is being eliminated entirely, those program costs are most likely to be saved, resulting in consequent net receipt gains to the state fisc.

Given the lag time between advance notification filing and final project completion, the earliest fiscal year any savings can be realized for the state fisc is FY20.

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

John D. Carpenter

**John D. Carpenter**
**Legislative Fiscal Officer**