LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: May 4, 2015	7:11 AM	**Author:** ADAMS
Dept./Agy.: Revenue		
Subject: Convert Certain Refundable Credits to Nonrefundable		**Analyst:** Greg Albrecht

TAX CREDITS OR +$55,000,000 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 four refundable tax credits by deleting language that provides for the refund of credit amounts in excess of tax liabilities. Annual amounts of credits in excess of annual tax year liabilities are 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, natural gas used in storage facilities, offshore vessels, and land-line telephone companies.

Applicable to tax years beginning on and after January 1, 2015.

NOTE: These credits are currently applicable against both income and corporate franchise tax liabilities. However, a franchise tax year applicability does not appear to be included in the bill language {for example 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.	$55,000,000	$484,000,000	$541,000,000	$581,000,000	$628,000,000	**$2,289,000,000**
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	**$55,000,000**	**$484,000,000**	**$541,000,000**	**$581,000,000**	**$628,000,000**	**$2,289,000,000**

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 converts certain tax credits from refundable status to nonrefundable status. The amount of credit in excess of the tax liabilities they are claimed against, personal income tax and corporate income & franchise tax, will not be refunded under this bill, but unused credit amounts can be carried forward and applied against tax liabilities for up to five subsequent tax 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 is refunded each year (sufficient tax liabilities are not available to exhaust the credits each year). Thus, while allowing unused credit amounts to be carried forward maintains exposure of the state fisc to these amounts, it is likely that in the aggregate these unused 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 $582 million in FY16 and growing to $728 million by FY20. These claims offset an aggregate average amount of tax liability of $100 million per year, leaving balances to be refunded that total some $481 million in FY16 and growing to $628 million by FY20.

A complication to estimating the effect on the state fisc in each particular fiscal year is the fact that fiscal year figures reflect multiple tax years of returns, while the change in the credits starts with a single tax period (the 2015 tax period). Each of these credits exhibits its own distribution of returns received in a single fiscal year that are attributed to each of several preceding tax years. That distribution was examined for each of the credits and applied to each credit's fiscal year refunded balance. The cumulative effect is 11.5% in year 1, 94% by year 2, 98.4% by year 3, 98.9% by year 4, and essentially 100% by year 5. This means that for the first fiscal year of affect (FY16), only one preceding tax period of returns (2015) will not be refunded claimed credits, resulting in $55 million of net state tax receipts in FY16, then increasing to $484 million in FY17, $541 million in FY18, $581 million in FY19, and $628 million in FY20.

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}

John D. Carpenter
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