

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 15** SLS 161ES 74
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: March 14, 2016 6:52 PM	Author: MORRELL
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Priority of Tax Credit Utilization	

TAX/TAXATION EN NO IMPACT GF RV See Note Page 1 of 1
 Provides relative to the application of refundable tax credits. (Item #26)(gov sig)

Current law prioritizes the utilization of tax credits against liabilities in an order that places refundable credits near the end of the priority list, with nonrefundable credits having no carry forward first in the list for priority utilization.

Proposed law moves refundable tax credits to the second priority for utilization (other than the refundable credit for local ad valorem taxes paid on inventories which are sixth in priority), after nonrefundable credits with no carry forward provisions. The bill also requires that transferable credits only be claimed on a return if they were acquired on or before the due date of the return.

Effective for tax periods beginning on or after January 1, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

The Department of Revenue will incur costs associated with modifying its tax processing systems to apply this change, as well as for taxpayer education and inquiries. The Department has not yet determined those additional costs.

REVENUE EXPLANATION

The Department of Revenue (LDR) recalculated income and franchise tax returns received in FY14 under the bill's conditions before the refundable inventory tax credit was removed from the second priority and placed in the sixth priority. For corporate returns, refundable credits were first applied to the income tax and then the franchise tax. Resulting tax liabilities were some \$10 million greater than under current law. Examples of nonrefundable credits without carry forward provisions are the corporate income tax credit for insurance company premium tax liabilities, and the individual income tax credit for taxes paid to other states. However, excepting the inventory credit from the second priority removes the largest refundable credit whose application exhausts the most tax liability. This allows more nonrefundable credits to be applied, and lowers the bill's potential net revenue gain to the state. According to LDR, the refundable portion of the inventory credit offset \$217 million of tax liability in the analysis. Since the resulting gain to the state fisc was only \$10 million, it is likely that without the inventory credit prioritized there will be no gain to the state fisc.

Currently, according to the Revenue Department, most taxpayers who utilize transferable tax credits file with extension and then purchase credits after the return due date to cover their tax liability balance, as needed. Presumably, as a result of this bill, taxpayers will purchase credits prior to the return due date (April 15th for calendar tax year corporate returns and May 15th for calendar tax year individual returns). To the extent this occurs there is no revenue effect from this provision of the bill. Since the bill is effective for the 2016 tax year, for which returns are filed or extended in the spring of 2017, it seems likely that taxpayers would be able to adjust to the new requirements of the bill with little effect on net revenue collections.

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

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

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Legislative Fiscal Officer