

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 330** HLS 19RS 274
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 22, 2019 10:39 AM	Author: WRIGHT
Dept./Agy.: Tax Commission / Local Government	Analyst: Greg Albrecht
Subject: Exempt Business Inventory From Property Tax	

TAX/AD VALOREM-EXEMPTION OR -\$443,000,000 LF RV See Note Page 1 of 1
 (Constitutional Amendment) Exempts items constituting business inventory from ad valorem property tax

Present law {Art. VII, §21} provides that "...the following property and no other shall be exempt from ad valorem taxation:", followed by a listing of various types of property which are exempt from property tax.

Proposed law adds to that list of exempt property items constituting business inventory. Applicable to taxable years beginning on and after January 1, 2020.

To be submitted to the electors at the statewide election to be held on October 12, 2019.

EXPENDITURES	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>5 -YEAR TOTAL</u>
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	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$27,000,000	\$233,000,000	\$243,000,000	\$245,000,000	\$748,000,000
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	<u>\$0</u>	<u>(\$443,000,000)</u>	<u>(\$443,000,000)</u>	<u>(\$443,000,000)</u>	<u>(\$443,000,000)</u>	(\$1,772,000,000)
Annual Total	\$0	(\$416,000,000)	(\$210,000,000)	(\$200,000,000)	(\$198,000,000)	(\$1,024,000,000)

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 (likely to be several thousands of dollars) and are typically absorbed within existing resources until cumulative changes necessitate additional resources be provided.

REVENUE EXPLANATION

The bill proposes to exempt from local property tax items constituting business inventory. Since the bill is effective with the 2020 property tax year, and property taxes are typically due/paid by December 31 of the year, local governments will face revenue losses during FY21. The bill appears to exempt broadly defined business inventory. The Louisiana Tax Commission annually reports the total amount of inventory valuation (fair market and assessed) subject to property tax, and does not distinguish particular types of inventory. The latest report for 2018 suggests property tax on all inventory was about \$443 million (\$4.011 billion of assessed value subject to 110.41 of statewide average parish-wide millage). To the extent local governments are able to adjust millages in response to this loss of tax base, there would be less of an aggregate loss of tax revenue, and more of a shifting of tax burden among property owners.

The bill also has an effect on state receipts in that the amount of local tax paid on inventory property by manufacturers, distributors, and retailers is reimbursed by the state through a tax credit against state income & franchise tax liabilities. The exemption of inventory from local property taxation will effectively eliminate the credit against state taxes, resulting in greater state net tax receipts. The effect on the state fisc is reflected in the amount of state tax credit claimed; an average of some \$245 million during FY16 - FY18; reflecting limitations imposed on this credit since 2015.

A complication to estimating the effect on the state fisc is the fact that fiscal year figures reflect multiple tax years of returns, and only about 11% of claims on returns received in a given fiscal year are associated with the immediately preceding tax year (2020 in this case), with 84% associated with the second preceding tax year (2019), 4% with the third preceding tax year (2018), and the remaining 1% in even earlier tax years. This means that for the first fiscal year affected, FY21, only one preceding tax period of returns (2020) will not be claiming the credit, resulting in only \$27 million of net state tax receipts in FY21, then jumping to \$233 million in FY22, \$243 million in FY23, and \$245 million in FY24.

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

John D. Carpenter
Legislative Fiscal Officer