LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 35** HLS 161ES 19
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:

Proposed Amd.:
Sub. Bill For.:

Date: February 20, 2016 2:34 PM
Author: MORRIS, JAY
Dept./Agy.: Revenue
Subject: Inventory Tax Credit - Refundable Percentage
Analyst: Greg Albrecht

TAX CREDITS OR -$20,000,000 GF RV See Note

Increases the refundable amount of the tax credit for local inventory taxes paid to political subdivisions (Item #31)

Current law provides that 75% of the inventory tax credit above tax liability is refunded to the taxpayer, and 25% is allowed to be carried forward for five years.

Proposed law will require 85% of excess credit be refunded, and 15% carried forward.

Effective for tax years beginning on and after January 1, 2017.

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	$0	$0	$0	$0	$0	**$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	($20,000,000)	($45,000,000)	($48,000,000)	($51,000,000)	**($164,000,000)**
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	**$0**	**($20,000,000)**	**($45,000,000)**	**($48,000,000)**	**($51,000,000)**	**($164,000,000)**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The 25% carry-foward share, enacted in the 2015 session, constituted a net revenue gain to the state fisc since, in the aggregate, tax liabilities are substantially lower than the amount of inventory credit available. This bill will reduce the amount net revenue gain expected by the state. Analysis of the impact of the bill is complicated by the fact that it is applicable on a tax year basis (starting with January 1, 2017) while the changes in 2015 were applicable on a tax filing data basis (starting with July 1, 2015). An additional complication is the distortion of FY15 data due to an abnormal level of filings and credit claims prior to the effectiveness of the 2015 changes.

The Department of Revenue attempted to work around these complications by establishing a baseline credit cost expectation due to the 2015 changes but based on FY14 tax filings and credit claims with respect to the level of claims and liabilities, and the pattern of tax year filings within a fiscal year time frame. Since the bill is first effective for tax year 2017, FY18 is the first fiscal year of revenue impact with an estimated revenue loss of some $20 million (11% of the immediate receding tax year returns filed within the first fiscal year of effectiveness). These revenue losses accumulate as subsequent tax years occur at the higher 85% refund rate, and previous tax year filings occur (for example, 84% of the 2017 returns filed in FY19, then 5% filed in FY20). Revenue losses relative to baseline expectation were estimated at $45 million in FY19 and $40 million in FY20. Under this model, losses stabilize in that range going forward, except for growth in the underlying property tax payments for which credits are available. That growth has been substantial in recent years (6.8% per year was used in the 2015 analysis) and could increase the results of the approach above to the $50 million range in the out years of the fiscal note.

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

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