

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 613** HLS 15RS 1217  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 1, 2015	1:59 PM	<b>Author:</b> LEGER
<b>Dept./Agy.:</b> Revenue		<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Phase Out Ad Valorem Tax on Inventory Property		

TAX/AD VALOREM-EXEMPTION OR -\$103,000,000 LF RV See Note Page 1 of 1  
 (Constitutional Amendment) Phases-in over a five year period an exemption for items constituting business inventory

Current law subjects to inventory property to ad valorem taxation.

Proposed law phases in an exemption to ad valorem taxation of the assessed value of inventory property. For taxes payable in 2016, 20% of the value is exempt; for taxes payable in 2017, 40% is exempt; for taxes payable in 2018, 60% is exempt; for taxes payable in 2019, 80% is exempt; and beginning January 1, 2020 the property is fully exempt.

To be submitted to the electors at the statewide election on October 24, 2015. Effective January 1, 2016.

<b>EXPENDITURES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$103,000,000	\$220,000,000	\$352,000,000	<b>\$675,000,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>(\$103,000,000)</u>	<u>(\$220,000,000)</u>	<u>(\$352,000,000)</u>	<u>(\$499,000,000)</u>	<b>(\$1,174,000,000)</b>
<b>Annual Total</b>	<b>\$0</b>	<b>(\$103,000,000)</b>	<b>(\$117,000,000)</b>	<b>(\$132,000,000)</b>	<b>(\$147,000,000)</b>	<b>(\$499,000,000)</b>

**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 Louisiana Tax Commission annual report implies that for 2014 property taxes on all inventory was about \$456 million (parishwide millages applied to assessed values). Inventory valuations have exhibited strong and persistent growth (at least 6.5% per year). Thus, the total amount of ad valorem tax affected by the bill in 2016 is estimated at \$517 million, growing in subsequent years to \$551 million 2017, and \$586 million 2018, \$624 million in 2019, and \$665 million in 2020. As the exemption provided by the bill is phased in, local governments in the aggregate will lose revenue amounting to \$103 million in FY17, \$220 million in FY18, \$352 million in FY19, \$499 million in FY20, and \$665 million in FY21 when the effect of the full exemption will be realized.

Since the amount of ad valorem tax paid on inventory is fully reimbursed by a refundable tax credit against state income and franchise tax, the reduction in local taxes paid has the effect of increasing net state tax receipts as smaller and smaller amounts of ad valorem tax are paid on inventory. Some portion of the state credit allowed for the amount of ad valorem tax paid late in each year might appear on tax returns filed in the following spring, but these taxes and credits are associated with business income and likely are reported on returns filed under extension. That places the state level effects of the bill in fiscal years subsequent to the ones that reflect the loss of local revenue.

It may be possible for local governments to offset some amount of the revenue loss from the exemption of inventory property through millage adjustments and reassessments of other property. To the extent this occurs, the local revenue loss discussed above is a maximum, and the effect of the exemption is to shift ad valorem tax liabilities onto other property.

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|--|----------------------------|-------|--|
| Senate   | <u>Dual Referral Rules</u> | House | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}                    |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}                  |                            |       | <input type="checkbox"/> 6.8(F)(2) >= \$500,000 Rev. Red. to State {H & S}                 |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} |                            |       | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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