

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6531
BILL NUMBER: HB 1511

DATE PREPARED: Dec 15, 1998
BILL AMENDED:

SUBJECT: Credit for inventory tax.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State

| STATE IMPACT | FY 1999 | FY 2000 | FY 2001 |
|-------------------------|----------------|----------------|----------------|
| State Revenues | | (15,000,000) | (49,000,000) |
| State Expenditures | | | |
| Net Increase (Decrease) | | (15,000,000) | (49,000,000) |

Summary of Legislation: This bill provides a state income tax credit against gross income taxes and adjusted gross income taxes for a certain percentage of property taxes paid by the taxpayer on business inventory.

Effective Date: July 1, 1999; January 1, 2000.

Explanation of State Expenditures: The Department of Revenue (DOR) will have additional administrative expenses related to the updating the tax forms and monitoring this tax credit. Before November of each year, the DOR, in conjunction with the Tax Board, shall determine the inventory tax credit percentage that does not exceed the allowable caps set out in this bill.

Explanation of State Revenues: This bill would allow a business inventory tax credit based on a percentage of property taxes paid on inventory. The credit would be limited to 8.2% in CY 2000, 17.5% in CY 2001, 25.3% in CY 2002, 32.3% in CY 2003, and 38.1% thereafter. The bill also establishes a maximum of property taxes which would be eligible for the tax credit at \$30 M in CY 2000, \$68 M in CY 2001, \$105 M in CY 2002, \$143 M in CY 2003 and \$180 M in CY 2004 and years after.

The credit may be taken against the taxpayer's liability under the corporate gross income tax, adjusted gross

income tax, and supplemental net income tax. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years or they may claim a refund.

Inventory taxes made up 8.96% of total property taxes paid in CY 98 and are estimated to range from 8.4% to 8.96% over the reassessment cycle. By applying these percentages to the estimated total net property taxes due, net inventory taxes and the amount of the tax credits are estimated in the table below. Anticipating changes in estimated quarterly tax payments, there could potentially be a loss of **\$15 M** in revenue for **FY 2000** and **\$49 M** in **FY 2001**. This assumes that some corporate tax filers will make adjustments in their quarterly tax payments in 2000. The FY 2001 estimate accounts for the remaining \$15 M in tax credits for CY 2000 to be reconciled in April 2001 and adjustments of \$34 M in estimated tax payments to accommodate the CY 2001 tax credits. The maximum revenue loss will be \$180 M in FY 2005.

| Tax Year | Max % Credit | Estimated Inventory Tax | Max \$ Tax Credit | FY Tax Impact | Rev Loss |
|--------------------|---------------------|--------------------------------|--------------------------|----------------------|-----------------|
| 2000 | 8.2% | \$443.4 M | \$30 M | FY 2000 | \$15 M |
| 2001 | 17.5% | 468.9 M | \$68 M | FY 2001 | 49 M |
| 2002 | 25.3% | 465.1 M | \$105 M | FY 2002 | 86.5 M |
| 2003 | 32.3% | 497.6 M | \$143 M | FY 2003 | 124 M |
| 2004 & years after | 38.1% | 532.4 M | \$180 M | FY 2004 | 161.5 M |

Tax revenue from the various taxes noted above are deposited in the General Fund and the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Revenue, State Tax Board.

Local Agencies Affected:

Information Sources: Local Government Database.