

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

301 State House
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FISCAL IMPACT STATEMENT

LS 6418
BILL NUMBER: HB 1839

DATE PREPARED: Dec 15, 1998
BILL AMENDED:

SUBJECT: Inventory tax phase out.

FISCAL ANALYST: Diane Powers
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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State

STATE IMPACT	FY 1999	FY 2000	FY 2001
State Revenues		(83,800,000)	(177,300,000)
State Expenditures			
Net Increase (Decrease)		(83,800,000)	(177,300,000)

Summary of Legislation: This bill provides a credit against a taxpayer's state tax liability for property taxes paid on inventory. The bill provides that the credit is initially equal to 20% of property taxes paid on inventory and increases the credit percentage over five years until the credit may be claimed for 100% of property taxes paid on inventory.

Effective Date: January 1, 1999 (retroactive).

Explanation of State Expenditures: The Department of Revenue will have additional administrative expenses related to the updating the tax forms and monitoring this tax credit.

Explanation of State Revenues: This bill creates a business inventory tax credit based on a certain percentage of property taxes paid on inventory. The applied percentages and corresponding tax years are identified below along with the estimated revenue loss for the respective fiscal years.

The credit may be taken against the taxpayer's liability under the corporate gross income tax, adjusted gross income tax, supplemental net income tax, bank tax, savings and loan association tax, insurance premium tax, and the financial institution tax. If the amount of the credit exceeds the taxpayer's liability, they may carry forward the excess in subsequent years. A taxpayer is not entitled to a carryback or a refund of any unused

credit. If a pass through entity does not have an income tax liability, the credit may be taken by the shareholder(s) or partner(s) in relation to their distributive income in which they are entitled from the pass through entity.

The tax credits would continue to grow in tax years 2003 and years after. Tax revenue from the various taxes noted above are deposited in the General Fund and the Property Tax Replacement Fund.

Tax Year	% Credit	Estimated Inventory Tax Credit	FY Impact
1999	20%	\$83,800,000	FY 2000
2000	40%	\$177,300,000	FY 2001
2001	60%	\$281,300,000	FY 2002
2002	80%	\$497,600,000	FY 2003
2003	100%	\$532,400,000	FY 2004

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.