LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6099 | **DATE PREPARED:** Jan 5, 1999
BILL NUMBER: SB 357 | **BILL AMENDED:**

SUBJECT: Interstate commerce exemption for inventory tax.

FISCAL ANALYST: Bob Sigalow
PHONE NUMBER: 232-9859

FUNDS AFFECTED: **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the possessors of property held for transshipment to an out-of-state destination may claim certain interstate commerce exemptions from the property tax imposed upon inventory.

Effective Date: January 1, 2000.

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a one cent tax rate for State fair and State forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds.

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, finished goods inventory owned by a manufacturer or processor is exempt from property taxation if the property is stored in its original package and will be shipped out of state. In addition to property *owned* by the manufacturer or processor, this bill would also exempt property that is *possessed* by the manufacturer or processor.

Additional exemptions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate. Total property taxes on inventory amounted to $395 million in CY 1998. Manufacturers accounted for about 42% of that amount or $166 million. Only a portion of manufacturers' inventory would be exempt under this bill, so only a portion of the $166 million tax burden would be shifted to other taxpayers.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that

fund.

We are currently waiting for additional information that might identify the property that would be exempt under this proposal. Additional information regarding the taxes paid on manufacturers' finished goods will be provided when available in an updated fiscal note.

State Agencies Affected:

Local Agencies Affected: Local Assessing Officials.

Information Sources: Property Tax Return Data and *1998 Property Tax Analysis*, State Tax Board.