# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 7249**
**BILL NUMBER:** SB 485

**NOTE PREPARED:** Jan 10, 2004
**BILL AMENDED:**

**SUBJECT:** Inventory Taxation.

**FIRST AUTHOR:** Sen. Drozda
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

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

**IMPACT:** State & Local

**Summary of Legislation:** The bill eliminates the property tax exemption for inventory used in the production of personal property shipped out of state and replaces the exemption with a property tax replacement credit (PTRC).

The bill also excludes the inventory subject to the credit from the statewide deduction for inventory scheduled to take effect in 2007.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** Under current law, taxpayers receive the 60% school general fund PTRC against taxes due on inventory, but they do not receive the regular 20% PTRC on civil and school operating funds. This bill would restore the 20% regular PTRC against taxes due on raw materials and WIP inventory.

This provision would have little effect on state PTRC payments because the bill would shift part of the property tax burden from the owners of property that qualifies for PTRC to the owners of raw materials and WIP inventory. So, the state already pays PTRC on most of the levy to be shifted.

The bill would, however, reduce the amount that the state pays for Homestead Credits. A portion of the taxes shifted to the inventory owners are currently paid by homeowners. The Homestead Credit savings is estimated at about $4.3 M per year. On a fiscal year basis, the savings is estimated at $1.4 M in FY 2005 and $4.3 M per year thereafter.

**Explanation of State Revenues:** The state levies a small tax rate for State Fair and State Forestry. Any increase in the assessed value base will increase the property tax revenue for these two funds. The total revenue increase under this proposal is estimated at $75,000 in FY 2005 and $150,000 each year thereafter.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Under current law, as amended by HEA 1001-2002(ss), raw materials and work-in-process (WIP) inventory that will become part of a finished good to be shipped out of state is exempt from property taxation. Previous law allowed the exemption only for the finished good itself. This is known as the interstate commerce exemption for inventory. The expanded exemption was effective beginning with taxes paid in CY 2004.

Also under current law, as amended by HEA 1001-2002(ss), all remaining inventory, statewide, will be entitled to a 100% deduction beginning with property taxes paid in CY 2007. For taxes due in CY 2004 through CY 2006, counties may opt to provide a countywide 100% deduction for inventory.

This bill would eliminate the exemption for raw materials and WIP inventory. In addition, the bill would not allow the 100% inventory deduction to apply to raw materials and WIP inventory.

The total exemption for raw materials and WIP inventory under current law is estimated at about $6.25 B AV per year. Beginning with taxes paid in CY 2005, this amount of AV would be added back into the tax base, resulting in a net tax shift from all taxpayers to manufacturing inventory owners estimated at $123.9 M in CY 2005, $120.4 M in CY 2006, and $124.3 M in CY 2007. The actual shift could be slightly less than the above estimates in 2005 and 2006 because the raw materials and WIP inventory could receive the county option 100% deduction in counties that have adopted the deduction.

**State Agencies Affected:**

**Local Agencies Affected:** Local assessors; County auditors.

**Information Sources:** Local Government Database; DLGF.

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