STATE OF LOUISIANA
LEGISLATIVE FISCAL OFFICE

JOHN R. ROMBACH
Legislative Fiscal Officer

P.O. Box 44097, Capitol Station
Baton Rouge, Louisiana 70804-0497
Phone: (225) 342-7233
Fax: (225) 342-7243
http://www.legisfiscaloffice.com

AD VALOREM TAX CREDITS
Estimated Fiscal Year Tax Revenue Costs

Since 1991 the state has implemented three credits against the state corporate and personal income taxes and the corporation franchise tax for certain ad valorem taxes paid to political subdivisions. In each case, the credit is refundable, meaning the taxpayer is entitled to a refund for any allowable credit amount which exceeds the aggregate tax liability of the taxpayer for income and franchise taxes. Thus, the full amount of ad valorem taxes paid is reimbursed to the taxpayer, regardless of their level of state tax liabilities. Each of these credits is described briefly below, and estimates of the state fiscal year tax revenue loss associated with them is presented along with distributions of the credits across industries and by size of the credits.

Act 153 (Senate Bill 373) of the 1991 Regular Session allows a credit for ad valorem taxes paid on inventory held by manufacturers, distributors, and retailers. The credit was phased in evenly over a five year period, and comprises over 95% of the total tax revenue costs of these credits.

Act 59 (Senate Bill 114) of the 1994 Third Extraordinary Session allows a credit for ad valorem taxes paid on vessels operating in Outer Continental Shelf Lands Act waters. The credit was phased in over a three year period, and comprises less than 5% of the total tax revenue costs of these credits.

Act 22 (House Bill 224) of the 2000 Regular Session allows a credit for 40% of the ad valorem taxes paid by telephone companies on their public service property which is subject to a twenty-five percent assessment ratio. A three percent state sales tax on interstate telecommunications services was imposed to finance this credit, and there should be no material net tax revenue cost associated with this credit so long as those receipts approximate the credit claims.

These credits are generated and taken without regard to the state's fiscal year periods. Ad valorem assessments are made as of the first of January of each year, and the tax payments associated with those assessments are made in December of each year. The state tax returns, against which the credits are taken, are filed in the spring of each year for the tax year coinciding with the previous calendar year (for most taxpayers). Extensions of state tax returns and resulting reconciliations of tax liabilities and payments are filed in the fall of each year. Finally, amended returns can be filed for an additional three years.

In order to estimate the tax revenue losses associated with these credits on a fiscal year basis (the basis upon which the state's budget is managed), the tax credit information has to be accounted for in such a way as to approximate the fiscal year dollar impact of the credit. The Louisiana Department of Revenue (LDR) provides a report of the dollar amount of inventory credit taken in association with each open tax year. These periods encompass a particular calendar year plus the eleven months of the subsequent calendar year within which returns filed with extensions can be finalized and reconciled. These reports are obtained twice year. A report is generated roughly midway through a particular fiscal year (usually in January or February) and contains information through the prior November extension returns. A report is also generated after the close of the fiscal year (usually in September) and contains information through the fiscal year just completed. Incremental changes from one report to the next are calculated for each open tax period and associated with the particular fiscal year within which (the January-February report) or for which (the September report) the report is generated. The sum of incremental changes for each open tax period is an estimate of the tax dollar cost of the credit for the fiscal year the state is currently in or has just completed.

This process has been repeated since inception of the first credit described above, and has generated estimates of the tax revenue cost of the credits for each fiscal year since. The estimated fiscal year tax revenue costs of these credits is presented in the table below.

Aggregate Tax Costs of Credits

Fiscal Year	Estimated Tax Cost	
1993 – 94	$17.6	million
1994 – 95	$37.2	million
1995 – 96	$48.8	million
1996 – 97	$96.9	million
1997 – 98	$130.4	million
1998 – 99*	$162.6	million
1999 – 00	$156.9	million
2000 – 01	$159.9	million
2001 – 02	$189.5	million
2002 – 03	$203.4	million
Average annual credits FY99 – FY03	$174.5	million
Total credits since inception	$1.2	billion

Notes:

(1) * Ad valorem taxes paid on inventory after July 1, 1996 were eligible for 100% credit. With extended and amended returns, 100% credit costs have been largely occurring since fiscal year 1998 – 1999.

(2) Not included in the 2002 – 03 estimated tax costs above is $28.9 million of credit for ad valorem taxes paid on telecommunications property. That is the first fiscal year that credit has an impact, and the credit is financed by a 3% sales tax on interstate telecommunications services. Thus, it has no material net tax cost.

(3) The estimated tax costs above include the credit for OCS vessels from as early as fiscal year 1995. Full 100% credit costs have been largely occurring since fiscal year 1998 – 1999. That credit is likely to be less than 5% of the total credit costs estimated above for any particular year.

(4) Notes (2) and (3) above imply that over 95% of the estimated tax costs above is associated with the credit for ad valorem taxes paid on inventories.

Also of interest is the distribution of the credits across different industries. The LDR generated a report based on tax data as of April 2000 that details the dollar amount of credit claimed by a variety of industries identified by their Standard Industrial Code (SIC) classification. Data from that period would have reflected, almost entirely, the distribution of the credit at the 100% phase-in step. Some major industry classifications, the share of inventory credit attributed to each industry, and the share attributed to the largest sector within each major industry group are presented in the table below.

Distribution of Credits by Industry

Industry	Share of Total	Largest	Share of Total
Retail Trade	39.4%	Automotive	11.9%
Manufacturing	29.3%	Refining	6.5%
Distributors	9.8%	Durables	6.7%
Services	7.6%	Business	5.5%
Transportation	5.7%	Water	3.4%
Mining	2.9%	Oil & Gas	2.9%
Telecomm/Utilities	2.5%	Telecomm	2.0%
Agriculture	1.3%	Forestry	1.0%

Notes:

(1) The water transportation sector within the broader transportation industry is the industrial sector receiving the benefit of the credit for ad valorem taxes paid on OCS vesssls, and this makes up the bulk of the credit benefit received by the transportation industry.

(2) The distribution above is based on returns for tax periods prior to the enactment of the telecommunications property credit. Thus, the balance of the credit distribution depicted above is associated with ad valorem taxes paid on inventories.

Finally, the LDR reporting of the ad valorem credits allows for a distribution of the credits by size of the credit. The table below presents that distribution for the number of taxpayers claiming credits, the aggregate amount of credit claimed, and the average amount of credit claimed as reported on returns for the 2001 tax year (including extensions allowed through November 2002).

Distribution of Credits by Size

$ Credit Size	No. of Filers	% of Filers	$ Credit (millions)	% of Credit	Avg $ Credit
$1 - $5,000	6,037	72.2%	$7.7	4.0%	$1,268
$5,000 - $10,000	722	8.6%	$5.2	2.7%	$7,162
$10,000 - $15,000	342	4.1%	$4.2	2.2%	$12,254
$15,000 - $20,000	209	2.5%	$3.6	1.9%	$17,378
$20,000 - $40,000	383	4.6%	$10.9	5.7%	$28,350
$40,000 - $60,000	175	2.1%	$8.6	4.5%	$49,246
$60,000 - $80,000	96	1.1%	$6.5	3.4%	$67,896
$80,000 - $100,000	66	0.8%	$5.9	3.1%	$89,773
$100,000 - $150,000	97	1.2%	$11.6	6.1%	$119,577
$150,000 - $200,000	67	0.8%	$11.6	6.1%	$173,209
$200,000 - $250,000	39	0.5%	$8.6	4.5%	$220,590
$250,000 - $300,000	21	0.3%	$5.7	3.0%	$269,333
$300,000 - $350,000	15	0.2%	$4.8	2.5%	$319,267
OVER $350,000	95	1.1%	$94.9	50.0%	$998,663
	8,364	100%	$189.7	100%	$22,680

In summary, three different credits against state taxes have been enacted for local ad valorem tax burdens on specific types of property. Two of these credits (inventory and OCS vessels) reduce annual state tax receipts by sizable amounts, while one of these credits (telephone company property) is financed by a state tax increase. The credits for ad valorem taxes paid on inventory and OCS vessels were phased in over multiple years, with full annual impacts occurring largely since fiscal year 1998-1999. In addition, the credit for ad valorem taxes on inventory comprises over 95% of the total costs to state tax receipts. The credits are heavily concentrated in particular major industries, with over two-thirds of the credits claimed by firms in the retail trade and manufacturing industries, and slightly less than 10% claimed by distributors. Within a major industry group, relatively large amounts of credit tend to be claimed by a particular sub-sector of the industry. The credits are also heavily concentrated in firms with large claims, with 50% of the credits claimed by only 1.1% of the tax filers, and only 4% of the credits claimed by over 72% of the tax filers.