

# LABI Perspectives on Property Tax

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SCR6 Task Force • October 2016

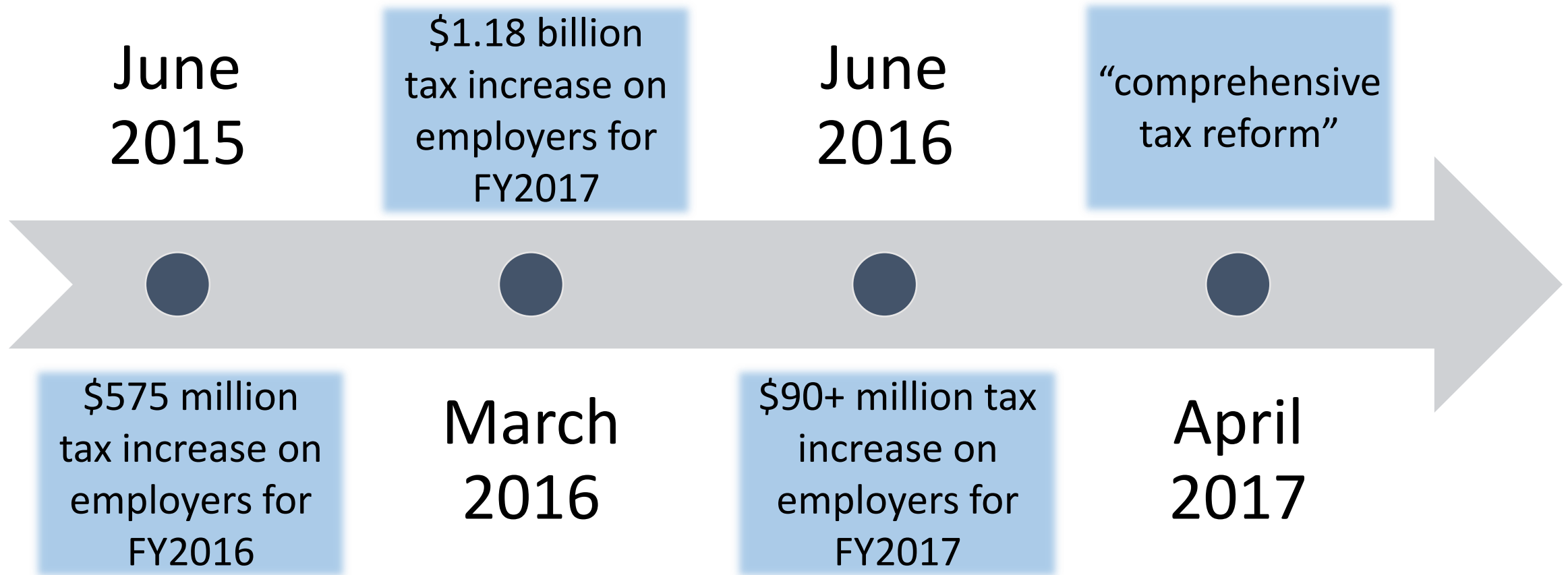
# LABI



# Outcomes of the 2015 and 2016 Legislative Sessions

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# A Pattern of Tax Changes Affecting Employers



# 2015 Major Tax Changes that Affect Louisiana Business

Act 133 Adams	Reduces refundable <b>inventory tax credit</b> by 25%
Act 123, 125, 129 Jackson	Reduces most <b>corporate income tax</b> exemptions, deductions, and credits 20-28% temporarily
HCR8 Montoucet	Suspends <b>business utilities</b> sales tax exemption 1% temporarily
Act 103 Broadwater	Eliminates <b>Net Operating Loss (NOL)</b> carry-backs
Act 109 Stokes	Limits availability of tax credits for <b>taxes paid in other states</b> temporarily
Act 415 Stokes	Further defines “ <b>inventory</b> ” for purpose of the credit
<b>\$575 MILLION</b>	<b>State Tax Increase on Employers for Fiscal Year 2016</b>

*Orange highlight denotes change relevant to SCR6 deliberations.*

# 2016 1<sup>st</sup> Session Major Tax Changes that Affect Louisiana Business

Act 25 Morris	Removes <b>sales tax exemptions</b> (inc. MM&E, business utilities)
Act 26 Jackson	New <b>1% state sales tax</b> with 27-month sunset
Act 12 James	Expands <b>franchise tax</b> to certain LLCs
Act 6 Broadwater	Reduces <b>Net Operating Loss</b> deductions by 28% (followup to Act 123 2015)
Act 8 Leger NOVEMBER BALLOT	Repeals <b>deductibility of federal income taxes</b> paid; sets corporate income tax rate at <b>flat 6.5%</b>
Act 16 Leger	Requires <b>add-backs</b> to corporate income tax
Act 10 Anders	Reduces <b>insurance premium tax credit</b>
Act 18 Barras	Reforms and sunsets <b>Enterprise Zone</b> program
Act 23 Morrell	Changes <b>ordering</b> of corporate income tax credits
Act 15 White	Caps <b>vendors' compensation</b>

**\$1.18 BILLION**

**State Tax Increase on Employers  
for Fiscal Year 2017**

# 2016 2<sup>nd</sup> Session Major Tax Changes that Affect Louisiana Business

Act 2 Broadwater	Limits the <b>sales tax exemption</b> on materials for further processing
Act 4 Morrell	Converts the refundable <b>inventory tax credit</b> above \$1m to nonrefundable
Act 5 Ward	Requires manufacturers to choose between the inventory tax credit and the <b>industrial property tax exemption</b>
Act 8 Reynolds	Changes the corporate income tax <b>apportionment</b> formula and enacts market-based sourcing
Act 10 Price	Changes the date <b>interest</b> begins to accrue on tax overpayments
Act 11 Montoucet	Limits the individual income tax deduction for <b>net capital gains</b>
<b><u>\$90+ MILLION</u></b>	<b>State Tax Increase on Employers for Fiscal Year 2017</b>

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# Post-Session Major New Regulation that Affects Louisiana Business

Gov. Edwards	Requires negotiations and approval by <b>local governing authorities</b>
Executive Order on	Establishes <b>additional contractual terms</b> for job creation with claw-backs
the Industrial Tax	Prohibits use of exemption for Miscellaneous Capital Additions such as
Exemption Program (ITEP)	<b>equipment upgrades</b>

**INCALCULABLE** Tax Increase on Employers Going Forward

*Orange highlight denotes change relevant to SCR6 deliberations.*

# HCR11 Task Force Draft Proposals that May Increase Employer Taxes in 2017

Permanently repeal certain state sales tax exemptions; discussions have included MM&E.

Unify state and local sales tax base; discussions have included business utilities.

Expand sales tax to some services (Texas model).

Repeal or modify most corporate income tax credits and exemptions.

Reduce the rate or phase out the inventory tax itself and reduce or eliminate the tax credit (final rec TBD).

Limit the value and time period of the industrial tax exemption and permanently expand local authority (final rec TBD).

**TBD Tax Increase on Employers Going Forward**

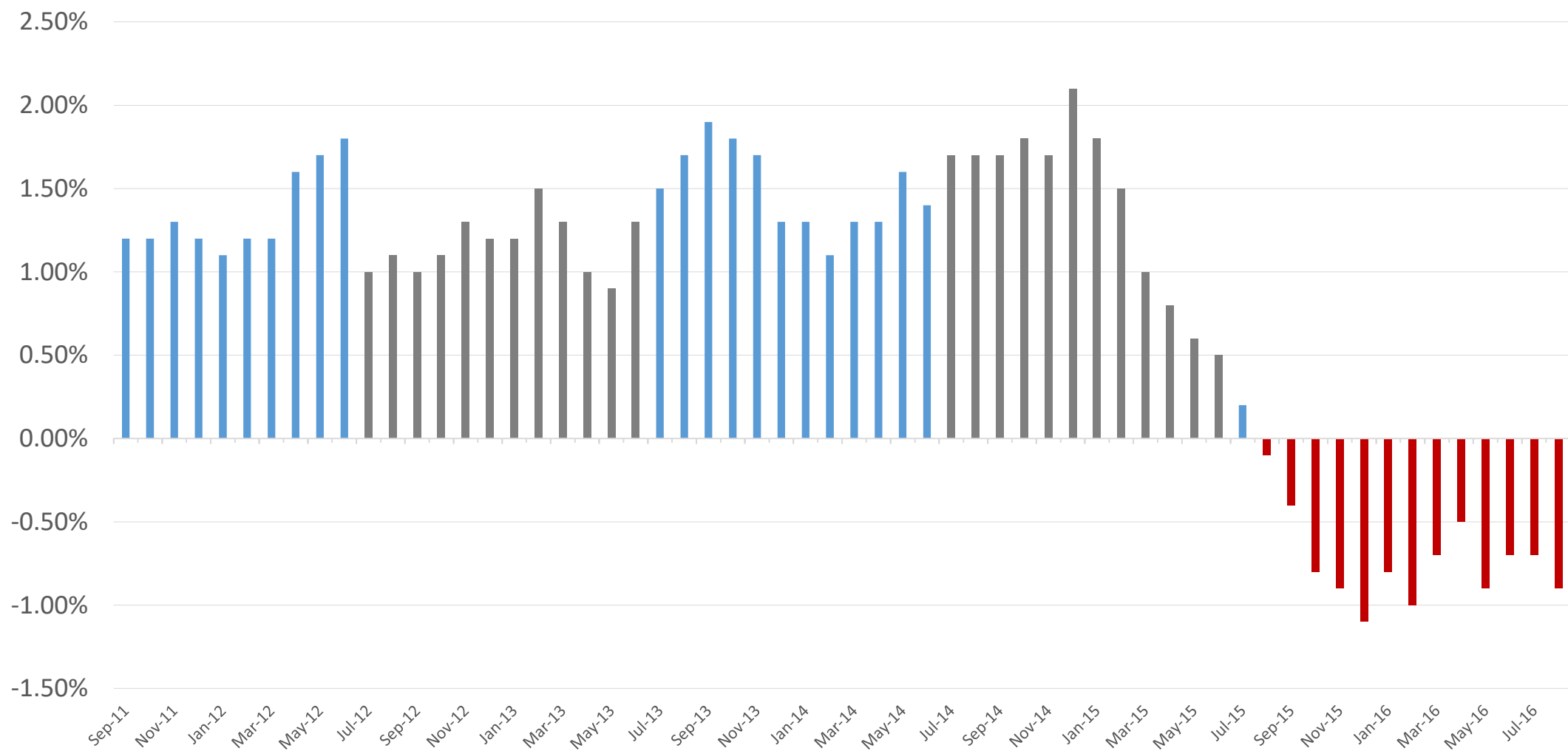
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# Property Tax Changes Should Not Be Made in a Vacuum

- #41 • Business Tax Climate (TF)
- #1 • Highest corporate income tax rate in the South (TF)
- #2 • Highest corporate franchise tax rate in the nation (TF)
- #3 • Most state/local sales tax on business inputs (COST)
- #4 • Greatest annual increase in business taxes (COST)
- 2 • States without centralized sales tax collections (TF)
- 3 • States cap carry-forwards of Net Operating Losses (TF)
- 9 • States tax manufacturing machinery and equipment (TF)
- 10 • States tax inventory statewide (TF)
- 14 • States tax manufacturing utilities (TF)

# Property Tax Changes Should Not Be Made in a Vacuum



Employment Growth Year Over Year (% change) – Legislative Fiscal Office data

# The Inventory Tax

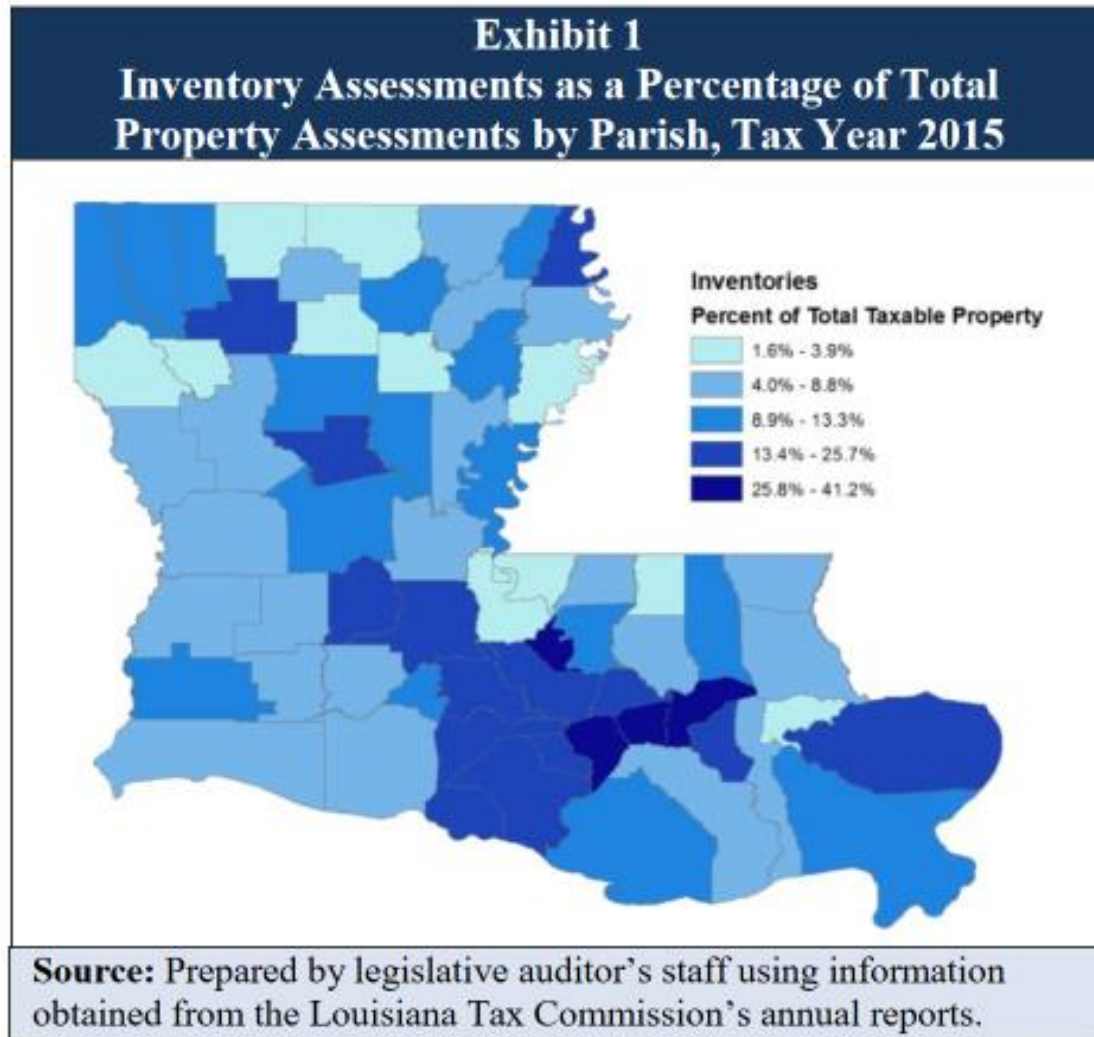
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## Several Industry Sectors Pay Most of the Inventory Tax

- In 2015, the assessed value of inventory in Louisiana was **\$4.4 billion**.
- More than **55,000 taxpayers** paid **\$483 million** to local government.

Industry (by NAICS code)	Inventory Tax Credits Claimed 2013 (LLA)
Petroleum and Coal Products Manufacturing	\$60.4 million
Merchant Wholesalers, Nondurable Goods	\$34.9 million
Management of Companies and Enterprises (Holding Companies)	\$31.5 million
Merchant Wholesalers, Durable Goods	\$18.9 million
Fabricated Metal Product Manufacturing	\$6.2 million

# More Inventory Tax is Collected in Some Areas Than Others



## Parishes with Highest Assessed Value of Inventory

East Baton Rouge	\$391m
Jefferson	\$277m
St. Charles	\$274m
Lafayette	\$269m
Calcasieu	\$254m

## Parishes with Lowest Assessed Value of Inventory

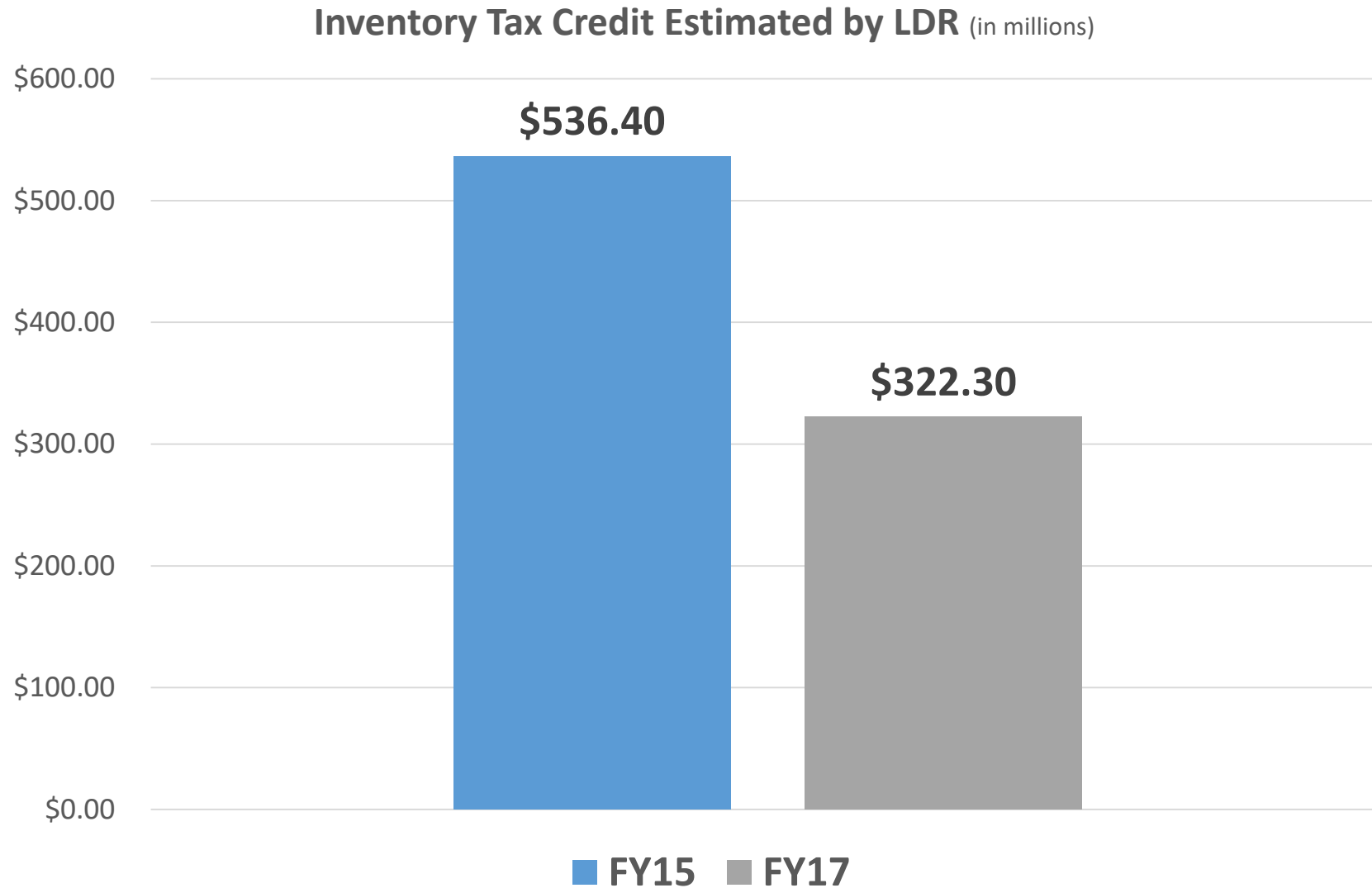
Claiborne	\$3.5m
Catahoula	\$3.3m
Tensas	\$2.1m
Caldwell	\$1.4m
St. Helena	\$0.9m

# Significant Changes Have Been Made to the Credit, Not the Tax

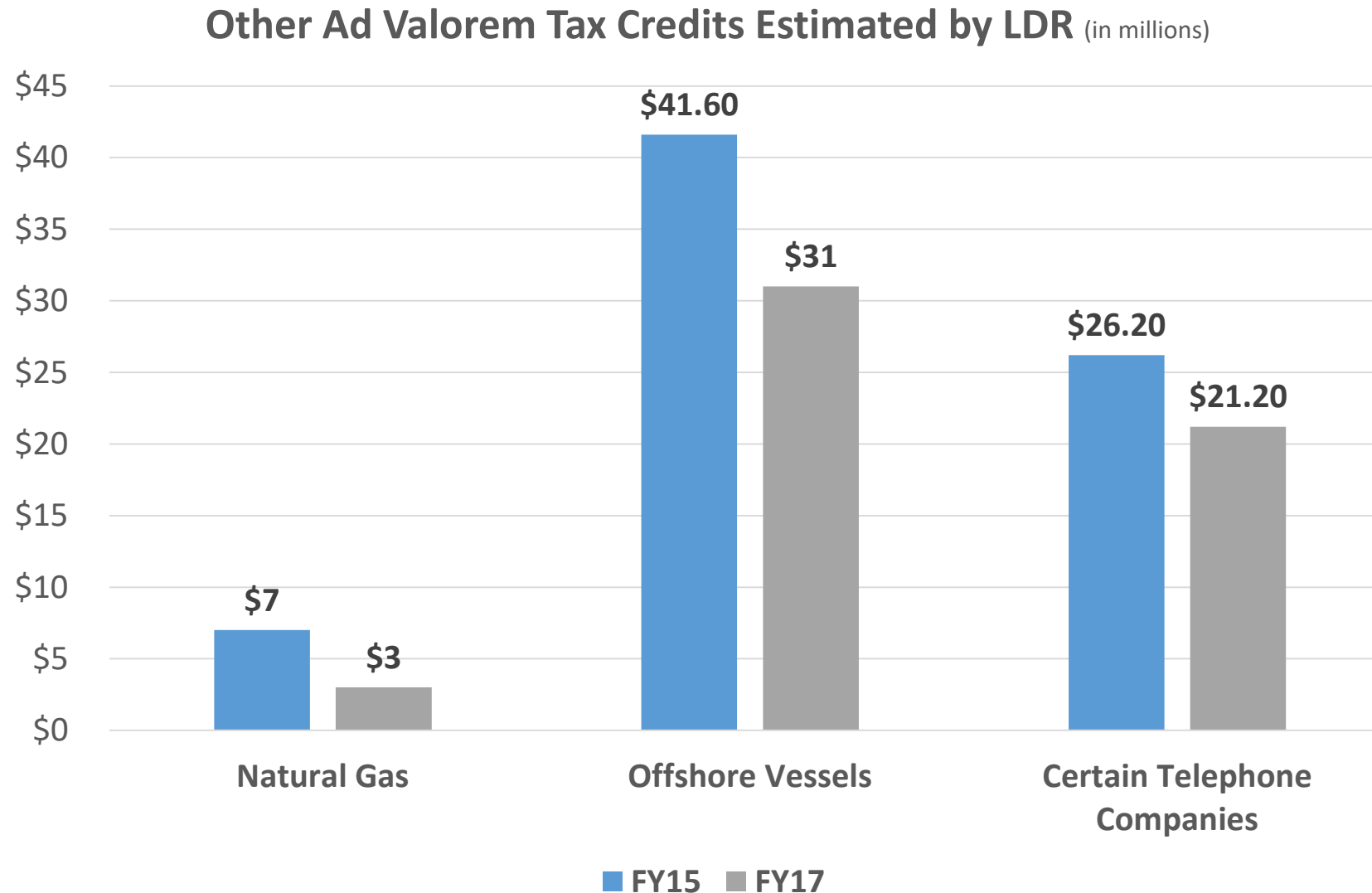
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1. For taxpayers with liabilities between \$500,000 and \$1 million, the refundable credit was permanently **reduced by 25 percent** and is allowed to be carried forward for five years (Adams 2015 and Morrell 2016).
2. For taxpayers with liabilities more than \$1 million, the **refundable credit is eliminated** and is allowed to be carried forward for five years (Morrell 2016).
3. For taxpayers who are manufacturers that utilize the ad valorem industrial tax exemption, the **refundable credit is eliminated** and is allowed to be carried forward for five years (Ward 2016).
4. For all taxpayers, the **definition of inventory has been narrowed** for purposes of the credit, and some forms of inventory, such as that used for marketing or distribution activities, are now ineligible (Stokes 2015).

# Recent Changes Have Reduced the Credit Significantly

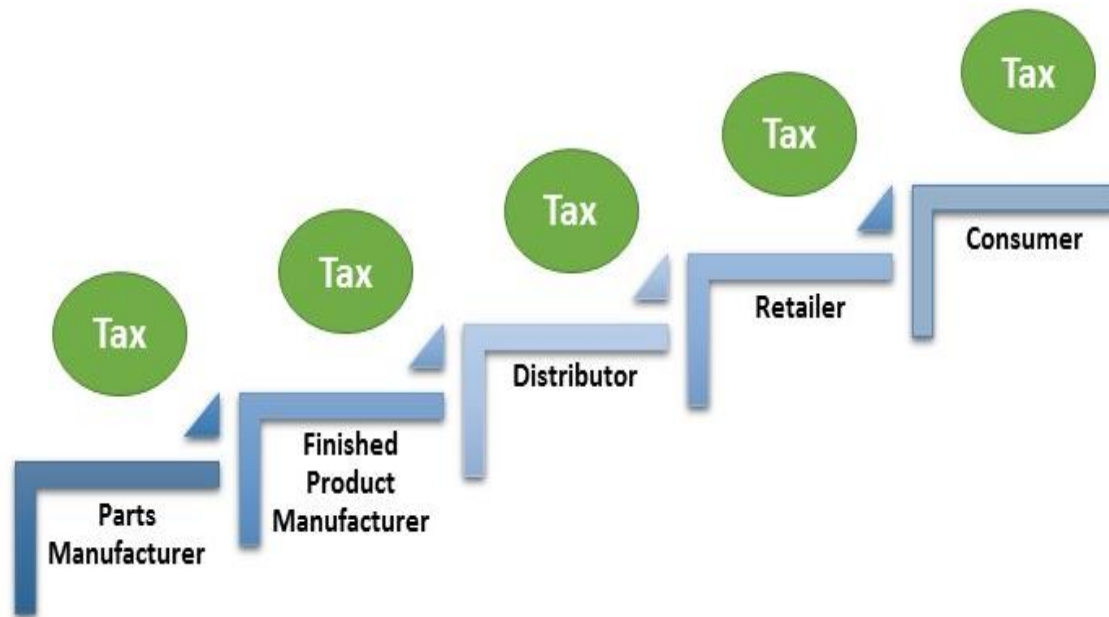


# Recent Changes Have Reduced the Credit Significantly





# Only Ten States Levy A Statewide Inventory Tax for a Reason



The Invisible Costs of the Louisiana Inventory Tax Chain

- A **disincentive to investment**, expansion, capital accumulation, and growth
- Applies to **mobile property** that can quickly respond to a change in tax laws and regulations
- Collected **regardless of profits** in any given year
- **Cumbersome** with detailed reporting on goods awaiting sale, commodities in the course of production, and raw materials and supplies as often as monthly
- Cost is passed to the consumer at multiple levels of production, resulting in **higher prices for everyone**

# Experts Suggest, and LABI Agrees: Louisiana Should Address the Tax Itself, Not Just the Credit

- **Tax Foundation (2016):** Repeal the tax and the credit. “While the tax liability paid to local governments by business is reimbursed by the state via a complicated credit, there are still administrative and compliance costs necessary because the tax exists in the first place. Rather than utilize this wasteful credit system, a better option would be to repeal the tax altogether.”
- **Forbes (2015):** Move away from the inventory tax. “Taxing mobile bases never works efficiently... Thankfully, the trend [nationally] has been to move away from business personal property taxation.”
- **Economists Tax Study for the Legislature (2015):** Repeal the tax over time. “Taxing inventories is not a productive economic development policy...We recommend the inventory tax credit be changed to 75% of the value of the assessment thereby giving the company some ‘skin in the game.’ Over time we believe that the inventory ad valorem tax should be eliminated and replaced with other local revenues.”

# The Industrial Property Tax Exemption Program

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# Manufacturing Matters to Louisiana

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- 3,000 manufacturers in Louisiana contribute **\$53 billion annually** to the state's economy (21% of the gross state product).
- There are 148,800 manufacturing jobs in Louisiana with an **average salary of \$82,000**.
- Service providers, merchants, and all levels of government benefit from the manufacturing process and revenue; this **multiplier effect** is one of the reasons states and nations compete for manufacturers.
- Historically, **Industrial Property Tax Exemption Program (IPTeP)** is the primary economic development tool for manufacturers, and 3/4 of states have a similar program.

# Tax Changes Have Disproportionately Impacted Manufacturers

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1. Numerous changes to the **inventory tax credit** outlined above, of which manufacturers represent roughly one-third of the taxpayers utilizing the credit, including complete elimination of the refundable credit for certain manufacturers (2015 and 2016)
2. Reinstatement of a state sales tax on **business utilities** and **manufacturing machinery and equipment** (2015 and 2016)
3. Statutory limitations imposed on the sales tax exclusion on **materials for further processing** (2016)
4. Administrative overhaul of the **Industrial Property Tax Exemption Program** exclusively affecting manufacturers

# Changes to IPTEP Are Not Similar to Texas

	Louisiana	Texas
Business Type	Manufacturing only	Manufacturing <b>and distribution centers</b>
Term	Up to 5 years initial + Up to 5 years renewal	Up to 10 years
Authority	Local and state	<b>Local only</b>
Percentage Exempt	Up to 100%	Up to 100%
Jobs	New jobs or compelling reasons for retention of existing jobs	Varies, often includes new jobs and retention
Advance Notification	Before beginning of construction	<b>None</b>
Application	Later of 90 days after operations begin or end of construction	<b>Before construction begins</b>
Project Completion Report	Later of 90 days after operation begins, end of construction or receipt of contract	<b>None</b>
Affidavit of Final Cost	Within 6 months of later of operations beginning, end of construction or receipt of contract	<b>None</b>
CEAs	Required for both state and local	<b>None</b>

# Texas Does Not Impose Many Uncompetitive Taxes that are Levied in Louisiana

	Louisiana	Texas
Local Sales Tax Collectors	58	1
Homestead Exemption	\$75,000	\$25,000
Sales of MM&E	1% + local rate	0
Sales of Manufacturing Utilities	3%	0
Manufacturing Consumables Not in End-Product	5%	0
Maximum Local Sales Tax	7% (total = 12%)	2% (total = 8.25%)

## Business Pays Local Taxes in Louisiana

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- Even before the IPTEP changes announced by the Governor, business pays the **majority of property taxes** in Louisiana.
- The Louisiana Constitution requires businesses to pay property tax on an **assessed value that is 50% more** than land and residential property – a 15% rate compared to a 10% rate.
- Louisiana is one of only ten states with an **inventory tax**.
- Louisiana ranks #3 for imposing state and local **sales taxes on business inputs** and #1 for the sales tax rate. Business pays **half of Louisiana sales tax**.
- Louisiana taxes **manufacturing machinery and equipment** at the local level today.



# Parishes Do Not Lose Revenue from IPTEP

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- After a facility is built, the **value of the land increases** substantially. Taxable inventory is added to the tax rolls. IPTEP-exempt property will be taxable when the exemption expires.
- In addition, the company's **inventory** is taxed, **income** is taxed, **sales** are taxed, **purchases** are taxed, and **payroll** is taxed.
- Especially with larger facilities, other services or companies will choose to **locate nearby**.
- As **more capital** is invested over time in the facility, additional tax revenues will be paid.
- In short, the fiscal status of parishes is **undoubtedly improved with a manufacturer** than when a company chooses a site in another parish, state, or country.

## LABI's Suggests Several Changes to the New IPTEP

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- Consider **local-only approval**, removing three layers of bureaucracy from the program and streamlining the process.
- Maintain IPTEP for **pollution-control equipment** mandated by federal and state law (align with 27 states including Texas).
- Amend the **jobs requirements** to include all jobs within the fenceline, jobs retained, and define a new job as a new job on the site.
- Honor the obligations in **existing contracts** up for renewal.

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