



LOUISIANA
DEPARTMENT *of* REVENUE

Louisiana's State Income Tax Credit for Local Inventory Taxes

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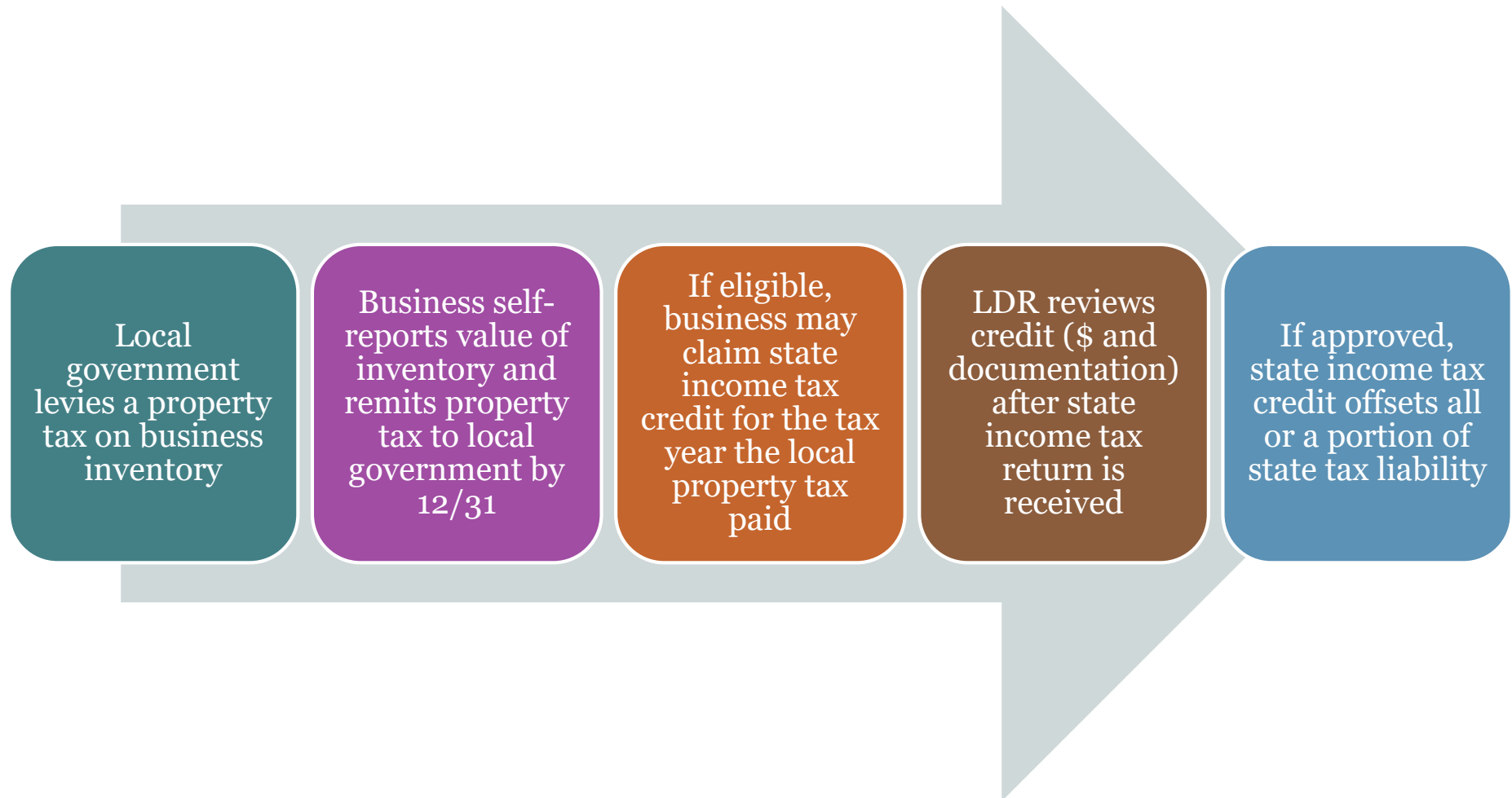
Luke Morris
Deputy Secretary of Revenue

House Committee on
Ways and Means

**Subcommittee on
State Tax Structure**

November 30, 2022

Relation of Local Property Tax to State Income Tax



Three Eligible Business Types

Manufacturer

- Engaged in the business of working raw materials into wares suitable for use or which gives new shapes, qualities, or combinations to matter which already has gone through some artificial process

Distributor


- Engaged in the sale of products for resale or further processing for resale

Retailer

- Engaged in the sale of products to the ultimate consumer
- Engaged in the short-term rental of tangible personal property
 - NAICS codes 532412 and 532310

Legislative History

Act 135 (RS1991)

- Authorized the state income tax credit for eligible businesses which pay local property taxes on inventory
 - Five year phase in (starting at 20% for FY 93)
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Act 11 (RS2002)

- Credit extended to trust and estate income tax
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Act 133 (RS2015)

- First limitation to refundability of credit
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Act 415 (RS2015)

- Prescribes definition of inventory
- Permits LDR to intervene in BTA proceeding relative to valuation or classification of inventory

Legislative History

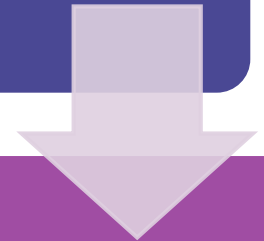
Acts 4 and 5 (2ES2016)

- Second limitation to refundability of credit
- Limitation of carryforward to 5 years if ITEP contract exists



Act 338 (RS2017)

- Expanded credit to short-term rentals



Act 50, 56, and 59 (2ES2020)

- Extended carryforward period from 5 to 10 years
- If inventory tax paid between 1/1/21 – 4/15/21, treated as paid in 2020 and may be claimed on 2020 state income tax return (2020)
- Modified refundability limitation for certain businesses (2020)

Inventory Tax Credit Refundability Rules

| General Available Credit Provisions | Refundable Amount | Nonrefundable Amount | Carryforward Period |
|---|---------------------------------|-------------------------|---------------------|
| Excess ad valorem taxes eligible for the credit \leq \$500,000 | 100% of excess | N/A | N/A |
| Excess ad valorem taxes eligible for the credit is $>$ \$500k but \leq \$1M | 75% of excess | 25% of excess | 10 years |
| Excess ad valorem taxes eligible for the credit is $>$ \$1M | 75% of the first \$1M of excess | Remaining excess credit | 10 years |
| Any amount of excess with an ITEP contract | N/A | 100% of excess | 10 years |

| Available Credit Provisions for New Businesses formed or first registered to do business in LA after April 15, 2016 | Refundable Amount | Nonrefundable Amount | Carryforward Period |
|---|-------------------|----------------------|---------------------|
| Excess ad valorem taxes eligible for the credit is $<$ \$10k | 100% of excess | N/A | N/A |
| Excess ad valorem taxes eligible for the credit is $>$ \$10k but \leq to \$1M | 75% of excess | 25% of excess | 10 years |
| Any amount of excess with an ITEP contract | N/A | 100% of excess | 10 years |

Revenue Loss by Major Tax Type

| Tax Type | FY 14-15 | FY 15-16 | FY 16-17 | FY 17-18 | FY 19-20 | FY 20-21 | FY 21-22 |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Individual Income Tax | 12 | 15 | 16 | 20 | 24 | 28 | 25 |
| Corporation Income Tax | 441 | 536 | 210 | 293 | 150 | 140 | 139 |
| Total | 453 | 551 | 226 | 313 | 174 | 168 | 164 |

| | | | |
|-------------------------|---|-------------------------|----------------|
| 1 | Subchapter S Corporation Exclusion | \$ 593,080,567 | 41.96% |
| 2 | Motion Picture Investor and Infrastructure Tax Credit | 176,497,978 | 12.49% |
| 3 | Net Louisiana Operating Loss Deduction | 163,740,247 | 11.58% |
| 4 | Inventory Tax/Ad Valorem Tax Credit | 138,782,816 | 9.82% |
| 5 | Louisiana Quality Jobs Program | 107,712,719 | 7.62% |
| 6 | Federal Income Tax Deduction | 80,616,102 | 5.70% |
| 7 | Insurance Company Premium Tax Credit | 70,749,816 | 5.01% |
| 8 | Enterprise Zones | 28,366,063 | 2.01% |
| 9 | Rehabilitation of Historic Structures | 15,888,822 | 1.12% |
| 10 | All Other Exemptions | 38,008,688 | 2.69% |
| Total Exemptions | | \$ 1,413,443,818 | 100.00% |

Revenue Loss by Industry (CIT Only)

FYE 6-21 Tax Exemptions by NAICS Sector

Corporation Income Tax

| Exemptions | Number of Taxpayers | Tax Before Exemption | FYE 6-21 Revenue Loss | Tax After Exemption |
|--|---------------------|----------------------|-----------------------|---------------------|
| 46. INVENTORY TAX/AD VALOREM TAX | | | | |
| Agriculture, Forestry, Fishing and Hunting | 30 | \$106,384 | \$256,958 | \$85,906 |
| Mining, Quarrying, and Oil and Gas Extraction | 38 | \$213,127 | \$369,007 | \$245,289 |
| Construction | 163 | \$954,590 | \$756,763 | \$881,779 |
| Manufacturing | 517 | \$43,905,300 | \$36,391,932 | \$18,908,403 |
| Wholesale Trade | 616 | \$15,510,712 | \$23,420,485 | \$8,239,566 |
| Retail Trade | 2,189 | \$19,366,094 | \$53,081,140 | \$9,542,048 |
| Transportation and Warehousing | 26 | \$7,640,028 | \$527,666 | \$7,240,520 |
| Information | 16 | \$5,638,242 | \$428,136 | \$5,510,316 |
| Finance and Insurance | 48 | \$4,812,408 | \$3,033,805 | \$3,372,304 |
| Real Estate and Rental and Leasing | 45 | \$1,817,234 | \$3,348,945 | \$494,748 |
| Professional, Scientific, and Technical Services | 117 | \$345,469 | \$517,632 | \$134,618 |
| Management of Companies and Enterprises | 102 | \$8,271,503 | \$9,039,167 | \$3,727,175 |
| Administrative and Support and Waste Management and Remediation Services | 23 | \$619,589 | \$318,027 | \$332,387 |
| Health Care and Social Assistance | 82 | \$14,599 | \$91,028 | \$5,499 |
| Arts, Entertainment, and Recreation | 19 | \$26,944 | \$374,215 | \$0 |
| Accommodation and Food Services | 379 | \$1,453,127 | \$370,165 | \$1,391,276 |

| Exemptions | Number of Taxpayers | Tax Before Exemption | FYE 6-21 Revenue Loss | Tax After Exemption |
|---|---------------------|----------------------|-----------------------|---------------------|
| 46. INVENTORY TAX/AD VALOREM TAX ... Continued | | | | |
| Other Services (except Public Administration) | 298 | \$2,824,063 | \$1,698,191 | \$2,147,851 |
| Unknown | 78 | \$10,860,047 | \$4,122,408 | \$9,159,840 |
| All Other ¹ | 21 | \$1,356,420 | \$637,146 | \$1,081,482 |
| Total | 4,807 | \$125,735,880 | \$138,782,816 | \$72,501,007 |
| 47. AD VALOREM TAX ON NATURAL GAS | | | | |
| All Other ² | 19 | \$5,679,943 | \$1,769,355 | \$5,722,577 |
| Total | 19 | \$5,679,943 | \$1,769,355 | \$5,722,577 |
| 48. AD VALOREM TAX ON OFFSHORE VESSELS | | | | |
| Transportation and Warehousing | 17 | \$414,043 | \$5,459,828 | \$0 |
| Unknown | 11 | \$413,593 | \$692,473 | \$118,045 |
| All Other ³ | 17 | \$530,215 | \$2,841,912 | \$554 |
| Total | 45 | \$1,357,851 | \$8,994,213 | \$118,599 |
| 49. AD VALOREM TAX PAID BY CERTAIN TELEPHONE COMPANIES | | | | |
| Information | 12 | \$554,463 | \$2,262,427 | \$27,171 |
| All Other ⁴ | 12 | \$1,571,751 | \$898,550 | \$891,517 |
| Total | 24 | \$2,126,214 | \$3,160,977 | \$918,688 |

Revenue Loss by Parish (CIT Only)

FYE 6-21 Tax Exemptions by Parish

Corporation Income Tax

| Exemptions | Number of Taxpayers | Tax Before Exemption | FYE 6-21 Revenue Loss | Tax After Exemption |
|---|---------------------|----------------------|-----------------------|---------------------|
| 46. INVENTORY TAX/AD VALOREM TAX | | | | |
| Acadia | 51 | \$20,116 | \$346,380 | \$10,820 |
| Allen | 15 | \$31,669 | \$231,696 | \$0 |
| Ascension | 88 | \$1,629,090 | \$1,927,477 | \$950,293 |
| Assumption | 23 | \$5,722 | \$151,193 | \$0 |
| Avoyelles | 29 | \$27,739 | \$171,382 | \$16,021 |
| Beauregard | 20 | \$40,311 | \$99,370 | \$17,453 |
| Bossier | 84 | \$1,139,290 | \$2,603,835 | \$458,196 |
| Caddo | 253 | \$2,206,818 | \$6,133,013 | \$478,248 |
| Calcasieu | 143 | \$1,196,966 | \$3,043,351 | \$302,859 |
| Caldwell | 11 | \$389 | \$66,546 | \$0 |
| Concordia | 17 | \$89,939 | \$287,948 | \$38,887 |
| DeSoto | 18 | \$14,057 | \$207,080 | \$464 |
| East Baton Rouge | 397 | \$9,329,921 | \$8,811,980 | \$6,170,438 |
| Evangeline | 29 | \$61,694 | \$85,959 | \$32,261 |
| Franklin | 15 | \$40,582 | \$241,467 | \$23,277 |
| Iberia | 109 | \$145,106 | \$1,287,974 | \$50,056 |
| Iberville | 13 | \$522,097 | \$530,305 | \$13,210 |
| Jefferson | 351 | \$4,937,445 | \$9,662,654 | \$2,503,081 |
| Jefferson Davis | 42 | \$56,943 | \$81,000 | \$49,222 |
| Lafayette | 481 | \$1,658,855 | \$6,298,799 | \$1,073,843 |
| Lafourche | 92 | \$1,112,429 | \$668,900 | \$930,521 |
| LaSalle | 10 | \$156,231 | \$131,551 | \$122,708 |
| Lincoln | 54 | \$12,540 | \$214,634 | \$10,116 |
| Livingston | 41 | \$61,699 | \$389,308 | \$23,460 |
| Madison | 10 | \$9,359 | \$152,954 | \$0 |
| Morehouse | 22 | \$116,621 | \$730,175 | \$88,651 |
| Natchitoches | 29 | \$14,832 | \$121,632 | \$8,016 |
| Orleans | 243 | \$9,749,945 | \$5,044,268 | \$8,129,641 |
| Ouachita | 236 | \$413,728 | \$2,737,689 | \$248,018 |
| Plaquemines | 25 | \$4,458 | \$593,488 | \$1,064 |
| Pointe Coupee | 19 | \$9,828 | \$336,879 | \$0 |

| Exemptions | Number of Taxpayers | Tax Before Exemption | FYE 6-21 Revenue Loss | Tax After Exemption |
|--|---------------------|----------------------|-----------------------|---------------------|
| 46. INVENTORY TAX/AD VALOREM TAX... Continued | | | | |
| Rapides | 163 | \$478,635 | \$2,841,612 | \$192,257 |
| Richland | 14 | \$21,216 | \$79,334 | \$17,620 |
| Sabine | 18 | \$0 | \$286,502 | \$0 |
| St. Bernard | 19 | \$466,702 | \$298,340 | \$322,100 |
| St. Charles | 23 | \$342,919 | \$306,983 | \$175,807 |
| St. James | 16 | \$3,985 | \$76,318 | \$0 |
| St. John the Baptist | 17 | \$41,231 | \$1,341,829 | \$0 |
| St. Landry | 105 | \$843,475 | \$1,542,995 | \$559,987 |
| St. Martin | 66 | \$196,191 | \$1,479,636 | \$47,834 |
| St. Mary | 107 | \$594,079 | \$646,176 | \$409,706 |
| St. Tammany | 191 | \$501,130 | \$3,026,460 | \$112,560 |
| Tangipahoa | 117 | \$1,247,594 | \$1,672,523 | \$1,090,930 |
| Terrebonne | 200 | \$849,719 | \$1,902,849 | \$409,206 |
| Union | 13 | \$15,465 | \$124,143 | \$0 |
| Vermilion | 70 | \$165,810 | \$1,224,285 | \$27,281 |
| Vernon | 20 | \$20,590 | \$237,336 | \$12,499 |
| Washington | 29 | \$238,378 | \$253,630 | \$198,562 |
| Webster | 37 | \$35,868 | \$601,827 | \$14,234 |
| West Baton Rouge | 26 | \$543,814 | \$559,055 | \$306,617 |
| Winn | 10 | \$8,432 | \$172,741 | \$0 |
| Out of State | 508 | \$79,595,536 | \$65,623,846 | \$42,525,184 |
| All Other ¹ | 68 | \$4,708,692 | \$1,093,509 | \$4,327,799 |
| Total | 4,807 | \$125,735,880 | \$138,782,816 | \$72,501,007 |

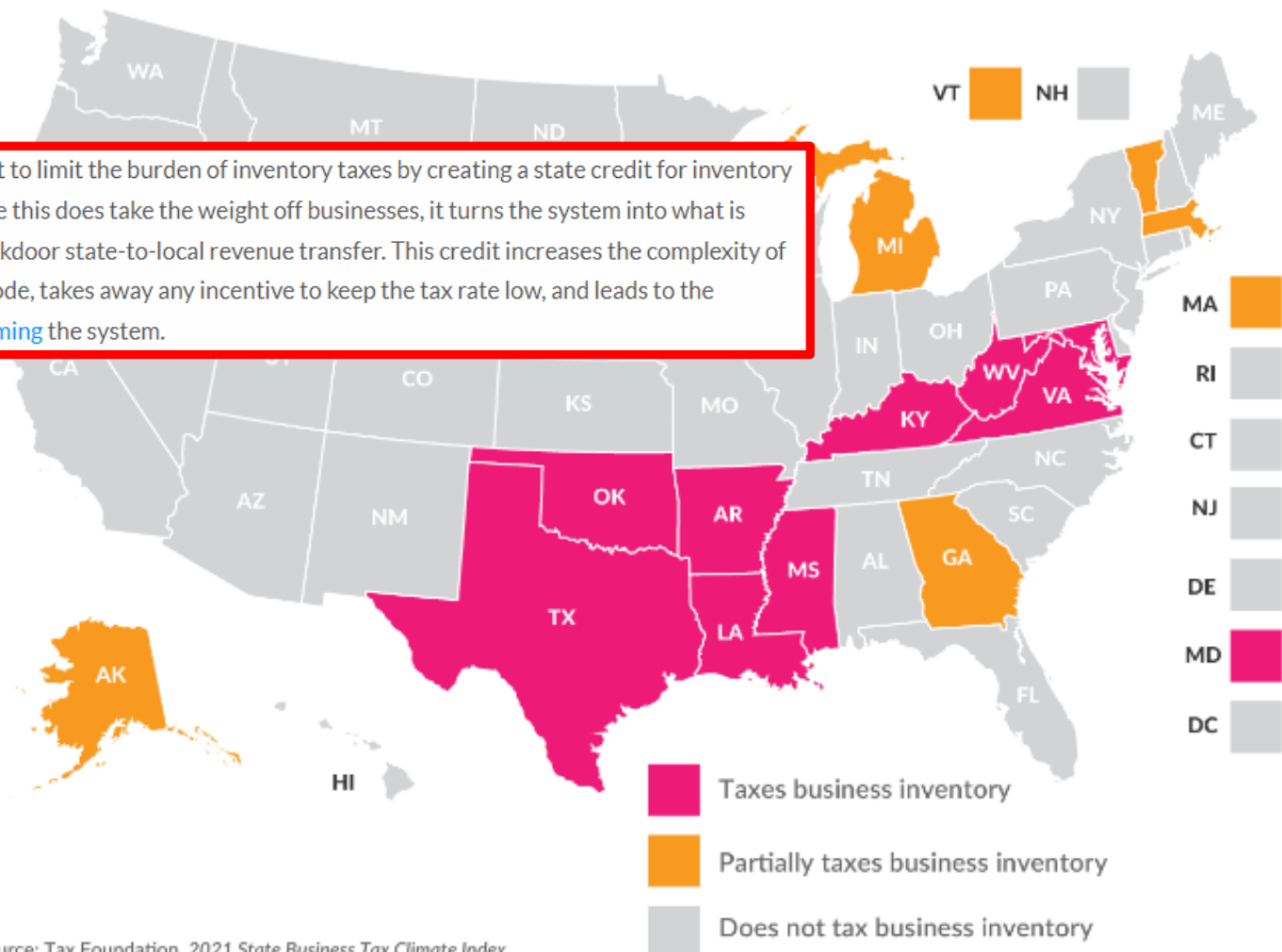
| | | | | |
|--|-----------|--------------------|--------------------|--------------------|
| 47. AD VALOREM TAX ON NATURAL GAS | | | | |
| All Other ² | 19 | \$5,679,943 | \$1,769,355 | \$5,722,577 |
| Total | 19 | \$5,679,943 | \$1,769,355 | \$5,722,577 |

| | | | | |
|---|-----------|--------------------|--------------------|------------------|
| 48. AD VALOREM TAX ON OFFSHORE VESSELS | | | | |
| Lafourche | 14 | (\$28,642) | \$1,953,069 | \$0 |
| All Other ³ | 31 | \$1,386,493 | \$7,041,144 | \$118,599 |
| Total | 45 | \$1,357,851 | \$8,994,213 | \$118,599 |

Does Your State Tax Business Inventory?

Property Taxes on Business Inventory as of July 1, 2020

Louisiana sought to limit the burden of inventory taxes by creating a state credit for inventory taxes paid. While this does take the weight off businesses, it turns the system into what is essentially a backdoor state-to-local revenue transfer. This credit increases the complexity of the state's tax code, takes away any incentive to keep the tax rate low, and leads to the possibility of [gaming](#) the system.



Source: Tax Foundation, 2021 State Business Tax Climate Index.

HCR 11 Task Force (1ES2016)

Ad valorem tax recommendations

1. Amend the Louisiana Constitution to provide local governmental authorities with a role in granting industrial tax exemptions and create a statutory framework to establish the extent of this role for local involvement, as well as defined policies for use of the exemption as an economic development tool that favors job growth.
2. Expand the use of payment in lieu of tax arrangements for local governments considering property tax exemptions to attract economic development. Such arrangements should require the coordinated approval of the elected officials in the impacted taxing jurisdiction.
3. Amend the Louisiana Constitution to allow for a gradual elimination of locally-imposed inventory taxes over a 10-year period accompanied by the elimination over a five-year period of the state income and franchise tax credit paid on inventory. To offset local governments' reduction in revenues, the Task Force suggests several options, including a constitutional change to allow a roll-up in existing property tax millages, enhanced local revenues resulting from expansion of the sales tax base and changes to the industrial tax exemption, and creation of a temporary revenue sharing fund to bridge the gap as the inventory tax goes away.
4. Amend the Louisiana Constitution to limit the property tax exemption on property owned by non-profits to that used exclusively for the tax-exempt purposes of the non-profit.

SCR 6 (1ES2106)

Summary of Findings:

- Repealing the ad valorem tax on inventory without a replacement revenue source is not a viable option due to the importance of the revenue from the tax to several local governmental units.
- Because of the different mix of funding sources used by each local government unit, the source and method of disbursing revenue to replace the ad valorem tax on inventory must provide adequate replacement revenue to each affected local government subdivision.

Recommendations:

- Renew the Task Force through a resolution to be introduced during the 2017 Regular Session in order to allow the Task Force to continue evaluating these issues and working towards long term solutions, to continue seeking input from stakeholders, to continue receipt, dissemination, and review of pertinent data.
- Continue to gather data to allow the Task Force to work with real time data and to understand the impact of any proposed ad valorem tax changes on every local government subdivision. In particular, the Task Force recommends gathering data on:

SCR 6 (1ES2106)

- Local school district funding directly attributable to ad valorem taxes on inventory
- Impact of changes to reduction of ad valorem tax on inventory to Minimum Foundation Program funding by district
- Local sales tax collections related to manufacturing machinery and equipment and business utilities
- Local tax collections by tax type and local government unit
- Local government bonded indebtedness supported by the ad valorem tax on inventory
- Impact of changes to the Industrial Property Tax Exemption program on ad valorem tax collections by individual local government subdivisions
- Changes to the inventory tax credit as a result of legislation from the 2015 and 2016 Sessions, including the fiscal impact to the state and the impact of the changes on other stakeholders
- Inventory tax collections from 2010 to the present
- Monitor the progress of the implementation of the findings of the Legislative Auditor's 2016 performance audit "Financial Risks to the State Associated with the Inventory Tax Credit" by the Department of Revenue and the Tax Commission

