Testimony Before Louisiana Senate Concurrent Resolution 6 Task Force

October 20, 2016

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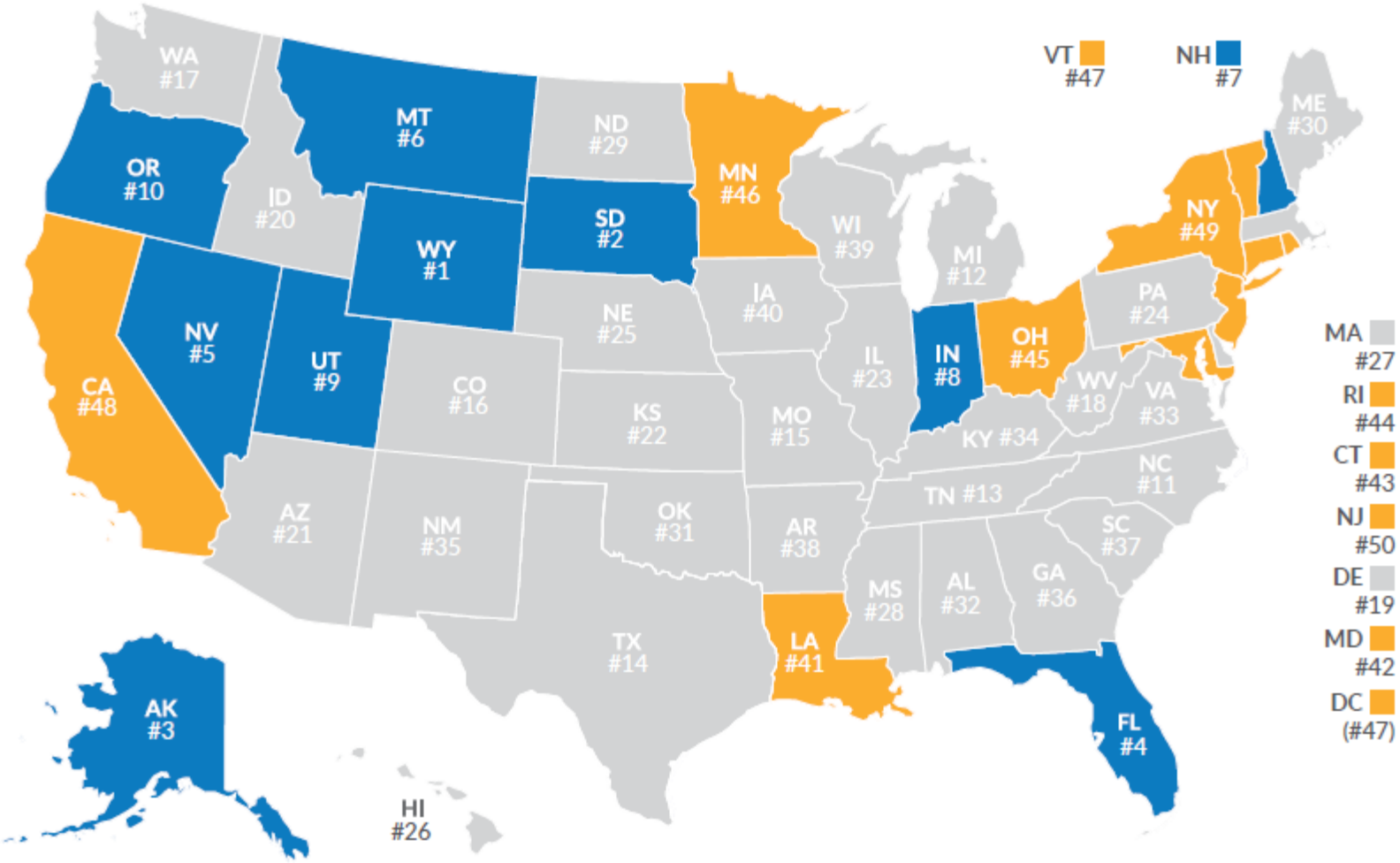
Louisiana Mid-Continent Oil and Gas Association

Louisiana Ranked 41 in State Business Climate

2017 State Business Tax Climate Index



Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. DC's score and rank do not affect other states. The report shows tax systems as of July 1, 2016 (the beginning of Fiscal Year 2017).
Source: Tax Foundation.

10 Best Business Tax Climates

10 Worst Business Tax Climates

Property Taxes on Inventory

States with Property Taxes on Inventory

Alaska
Arkansas
Georgia
Kentucky
Louisiana
Massachusetts
Mississippi
Oklahoma
Texas
Vermont
Virginia
West Virginia

Property Taxes on Inventory Bad for Business … and Residents

Levied on the value of a company's inventory, the inventory tax is especially harmful to large retail stores and other businesses that store large amounts of merchandise. **Inventory taxes** are highly distortionary, because they **force companies to make *decisions about production that are not entirely based on economic principles but rather on how to pay the least amount of tax on goods produced***. **Inventory taxes also create strong incentives for companies to locate inventory in states where they can avoid these harmful taxes**.

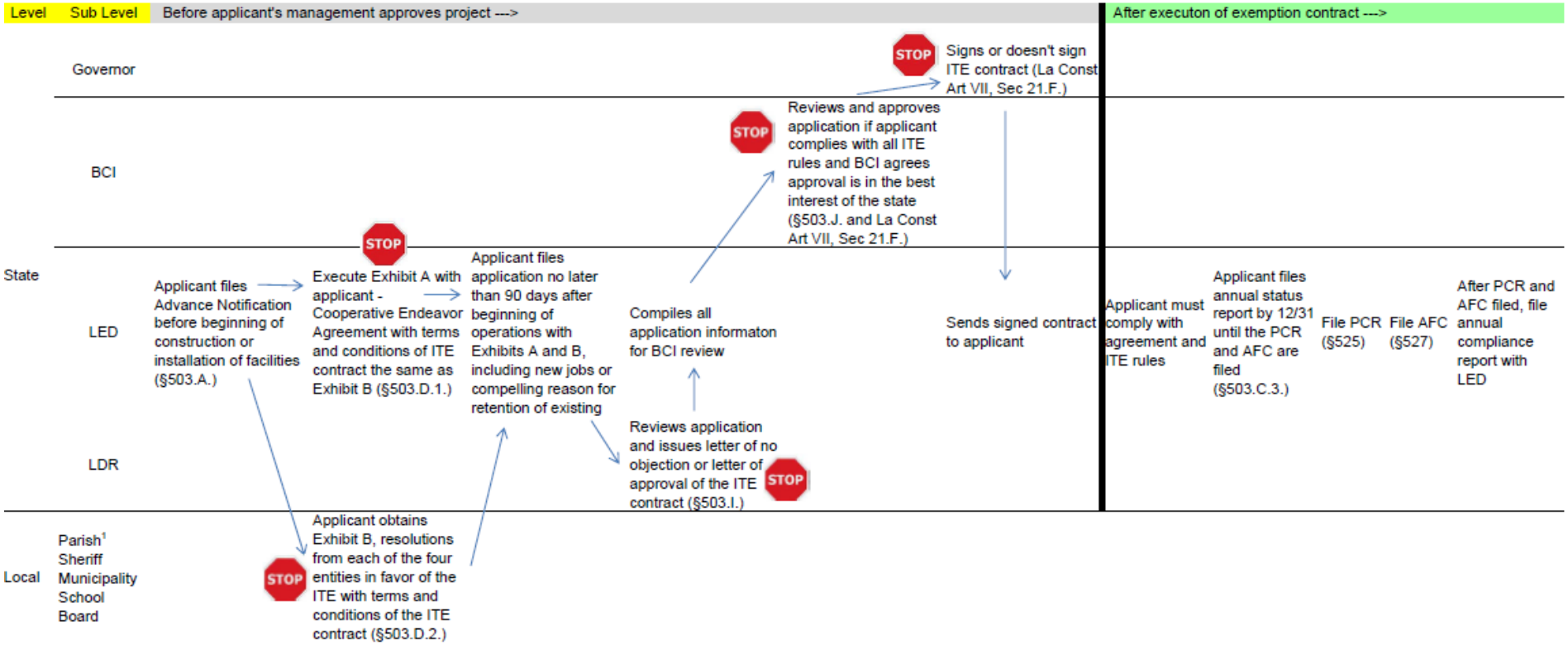
Source: 2017 State Business Tax Index, page 54, Tax Foundation

Industrial Tax Exemption

Texas Property Tax Abatement Processes

Incentive	Government Level	Before applicant's management approves project --->						After jurisdiction approves application --->	
Non-School - Chapter 312 (excluding pollution control)	Local	File application for tax abatement with *each* local jurisdictioin **before** company approves project.	Jurisdiction reviews application to determine eligibility and terms based on tax abatement guidelines refreshed every two years (required by state law).	Jurisdiction gives required public notice of application in agenda of public meeting.	STOP Jurisdiction governing body approves application during public meeting.	Abatement is formalized by a written agreement between the jurisdiction and applicant.	Applicant files an application with the county appraisal district on or before 4/30 of the first year the property would have become taxable (places property on exempt roll).	Comply with agreement	File annual compliance as required in tax abatement guidelines and agreement.
School - Chapter 313 (excluding pollution control)	State			File application with school district and state Comptroller **before** company approves project in compliance with instructions provided by the Comptroller	STOP Comptroller approves or denies application within 150 days application is filed				File annual compliance report and biennial compliance report in even years (year before legislative session)
	Local	Submit a request to file application for value limitation with school board **before** company approves project	STOP Receive resolution from school board permitting application for value limitation	File application with school district and state Comptroller **before** company approves project in compliance with instructions provided by the Comptroller	School board approves if approved by Comptroller	Value limitation is formalized by a written agreement between the school district and applicant	Applicant files an application with the county appraisal district on or before 4/30 of the first year the property would have become taxable (places property on exempt roll)	Comply with agreement	
Pollution Control - §11.31	State	File an application for "positive use determination" with the TX Commission on Environmental Quality (generally by 1/31 of the tax year when it would otherwise become taxable)	If TCEQ determines application is not administratively complete, applicant allowed 30 days to provide revised application with requested information	STOP TCEQ may request additional technical information within 60 days of issuance of an administrative completeness letter	TCEQ issues a "positive use determination" (approval) or "negative use determination (denial) within 230 days from date TCEQ determines the application administratively complete			File new application with TCEQ if ownership or use changes	No annual compliance report
	Local						Applicant files an application with the county appraisal district on or before 4/30 of the first year the property would have become taxable (places property on exempt roll)		No annual compliance report. Chief Appraiser "may" request reapplication but generally does not request unless reason to suspect use change

Draft New Industrial Tax Exemption Process



Footnotes

1 Parish sub level – As only four jurisdictions are listed in Executive Order JBE 16-26 (parish, municipality, school board and sheriff), the parish approval will also apply to other jurisdictions not listed in the Executive Order.

2 The stop signs indicate a significant delays and decision points. ***The proposed ITE process has five stop signs versus only 1 for Texas non-school and pollution control abatements and 2 for Texas school abatements.*** By comparison, Texas non-school and pollution control approval processes are generally significantly faster than the proposed new ITE process (e.g., the non-school approval process can easily take 45 days). ***This is crucial time in project decisions.***

Other Property Tax Factors

- Assessment Ratios – Most businesses pay 50% more property tax per dollar of taxable value than home and land owners (15% v. 10%). For 2015, the taxable residential assessed value was $13.19 billion, which would be $19.78 billion at 15%. This is a $2.18 billion tax "exemption" due to this lower assessment ratio.
- Valuation – Some Louisiana assessors are qualified and attempt to value business property according to market value as required by law. Other assessors rely on only a portion of the Tax Commission rules and interpret their "discretion" as okay to ignore clear valuation evidence, thus significantly missing market value.
- Tax Rates – If taxable values significantly increase with less ITEP, some adjustment in tax rates would seem appropriate to both allow government revenue similar to the previous year and provide tax relief for all taxpayers.

Questions?