HCR 11 Task Force – May 6, 2016
DRAFT RESOLUTION: Inventory Tax Credit and the Ad Valorem Tax on Inventory
Proposed by:

WHEREAS, Louisiana's state inventory tax credit reimburses businesses for ad valorem taxes on inventory assessed and collected by local government;

WHEREAS, more than 10,000 Louisiana businesses – from large, multi-national corporations to neighborhood grocery stores – pay inventory taxes to local government and claim the refund from the state;

WHEREAS, in addition to Louisiana, there are only nine states that levy an inventory tax statewide and refunding the inventory tax was seen as a major step to make Louisiana more economically competitive when it was enacted in 1991;

WHEREAS, by definition, inventory taxes dis-incentivize investment, expansion, capital accumulation, and growth; whereas the negative effect of property taxes, such as the inventory tax, is particularly severe because it is owed by employers regardless of profits in any given year; and whereas inventory taxes are a business expense that are passed on to consumers, raising costs for everyone;

WHEREAS, Louisiana ranks #37 on the 2016 State Business Tax Climate Index and #28 on the property tax component even with the inventory tax credit in place, which is an important factor in national rankings of business climates;

WHEREAS, the Tax Foundation finds the inventory tax swap "creates unnecessary compliance burdens, and, while full reimbursement can be anticipated, imposes short-term tax costs as well;"

WHEREAS, local governments have become dependent upon the revenue from the ad valorem tax on inventory, which is estimated at more than $500 million this fiscal year, represents 11 percent of all property taxes collected in Louisiana, and is growing annually at a rapid pace;

WHEREAS, businesses receive $0 from the state beyond what is paid to local government and therefore the state tax credit is effectively functioning as aid to local government distributed on the basis of inventory and inventory tax rates;

WHEREAS, in order to raise revenue to address the state budget deficit in 2015, the Louisiana Legislature reduced the refundable portion of the inventory tax credit by 25 percent for taxpayers with inventory tax liability more than $10,000 annually, allowing a carry forward instead;

WHEREAS, in additional attempts to raise revenue, the Legislature attempted to suspend or further reduce the inventory tax credit in the 2016 special session even as the inventory tax applies to mobile property that can quickly respond to a change in tax laws and regulations;

WHEREAS, recent studies by university economists and the Tax Foundation have recommended that Louisiana repeal the inventory tax itself, along with the credit;

Accordingly, the Task Force recommends the state end this complicated system in favor of a simple and stable alternative that will save state dollars by 1) eliminating the ad valorem tax on inventory altogether; 2) eliminating the state inventory tax credit; and 3) providing a direct appropriation from the State General Fund to local government based on a formula that would "hold harmless" at current levels of revenue.