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OUTLINE

1. **Sales Tax**

   a. **Competitive Rates**

      i. **Offshore**

         1. The suspension of these exemptions and exclusions put Louisiana's offshore oil and gas industry at risk considering the proximity of Texas and Mississippi ports, and both states exempt property purchased for exclusive use outside the state (Outer Continental Shelf) from taxation.

            a. **First Use**

            b. **Revenue Information Bulletin 16-034**

      ii. **MM&E** La. R.S. 47:301(3)(i)(i), (13)(k)(i) and (28)(a), R.S. 47:337.10(I)

         1. The MM&E exclusions, phased in over seven years, allow manufacturing machinery and equipment to be purchased free from the state sales, use, lease, and rental tax by eligible manufacturers. To qualify for the exclusion, the machinery and equipment must be used by the manufacturer in a plant facility and be used predominantly and directly in the actual manufacturing process. These exclusions were put in place to incentivize the expansion of current facilities or encourage businesses to relocate to Louisiana (the "State"). Now, the removal of these exclusions will delay, or potentially eradicate, the expansion, or construction, of facilities in the Louisiana. Further, the expected revenue collections[1] will decrease because the collection estimates assume business will behave the same way with or without the exclusions. However, once the exclusion is removed, facilities may choose not to expand or buy equipment under the MM&E definition. So by collecting the tax, the State will fall short of its revenue expectations and

[1] Pursuant to the Tax Exemption Budget for 2015-2016, published on March 24, 2016, the Louisiana Department of Revenue estimates collecting $78,106,000 in fiscal year 2017 and $76,575,000 in fiscal year 2016.

disincentivizes business expansion, thus pushing potential growth to neighboring states and denying Louisiana citizens the opportunity for jobs and economic growth.

b. Consistency

i. Business Utilities

1. The current structure potentially reaches into taxing business inputs. When considering broadening the sales tax base, it is important to maintain proper treatment on all final consumer goods and services while exempting all purchases made by businesses that will be used as inputs in the production process. This is not because business deserve special treatment under the tax code, but because applying the sales tax to business inputs results in multiple layers of taxation embedded in the price of goods once they reach final consumers, known as "tax pyramiding." The result is higher and inequitable effective tax rates for different industries and products, which is both non-neutral and non-transparent.

ii. Other Construction

1. Louisiana Law says that you cannot tax immovable property

iii. Further Processing

1. Refineries are affected by this tax because state and local taxing bodies seek to tax coke-on-catalyst, a by-product consumed during the refining process. Basically, coke builds up on the catalyst during the process reaction changing crude to gasoline, diesel, etc. Once the coke builds up, it must be burned off to make the catalyst usable again. This by-product, coke-on-catalyst, has no taxable value as decided by Louisiana Supreme Court in 1997 in the case, "BP Oil Co. v. Plaquemines Parish Government"

iv. Pollution Control Devices

1. When this exclusion was in place, it allowed industry to purchase pollution-control equipment free of general sales tax. This encouraged companies to purchase and install necessary equipment to cut industrial air, noise, groundwater, and other pollution. In fact, the exclusion had a broader scope than other states because it applied to both

pollution control devices and pollution control systems. With this more expansive scope, Louisiana was more attractive for multi-state companies completing for the same project dollars. Without it, Louisiana must compete with its neighboring states, and while pollution reduction must be a significant reason for a project, it does not have to be the exclusive reason. Without this incentive, Louisiana puts itself at risk for losing economic growth in the state.

2. **Corporate Franchise Tax**
   a. Louisiana is only 1 of 18 states that levies a CFT because it is an economically damaging tax imposed at a low rate but directly on business capital. These taxes discourage capital formation and are a deterrent to economic growth development. Based on their detrimental economic effects, states are increasingly moving away from capital stock taxes. Kansas eliminated it in 2011, and Rhode Island and West Virginia completed phase-outs in 2015. Missouri, New York, and Pennsylvania are in the process of phasing out their franchise taxes. Texas and Florida do not have a capital stock tax.

3. **Inventory Tax**
   a. The removal of the inventory tax credit would put Louisiana manufacturers at a competitive disadvantage when compared to most states. Louisiana is only one of the few states that assess inventory for property taxes and without the credit manufacturers would face overly burdensome property taxes. Texas does collect a property tax on inventory but it offsets the tax by having lower sales tax rates and no income tax. Even California with its draconian tax regime does not assess inventory for property taxes.
   b. With the prospect of higher property taxes on inventories, manufacturers that currently store inventory in Louisiana may be more inclined to manage its inventory volumes in Louisiana to avoid local property tax assessment meaning that local property tax revenue would decline.
   c. The inventory tax credit is a business incentive that manufacturers consider when comparing Louisiana to other states for siting a new plant or continuing to invest in an old one. Property taxes on inventories where there are volume and price volatility creates budget/profit uncertainties. The state inventory tax credit program was created to alleviate those uncertainties while at the same time protecting local

parish revenue for schools, police, fire, and other local parish social services, therefore, removal of the credit would negatively impact project budgets and create project uncertainties leading to Louisiana based projects to perform lower in site selection exercises.

d. If the inventory tax credit were repealed, higher priced goods are a probable consequence. The price of goods will likely rise as businesses attempt to pass the increased cost of doing business onto consumers. The inventory tax applies to virtually everything that is sold, so those with the least means will be hit the hardest by the price increases. This is why the inventory tax has been called "a regressive tax that fosters inequities" and discarded by all but 10 states.

e. If the state inventory tax credit is repealed, jobs will be negatively impacted. Businesses that retain inventories require certain positions to maintain and keep track of those inventories. If businesses shift their inventories to other locations to avoid the higher taxes, they will take jobs with them.

f. Repealing the inventory tax credit and leaving the burdensome inventory tax in place would hinder Louisiana's economic growth, incentivize businesses to send their investment dollars and inventories out of state resulting in lower state and local tax revenues and fewer jobs in Louisiana.

4. ITEP; this made Louisiana very attractive

a. The continuation of this program is vital to the economy of Louisiana. This is a state run program enacted in order to stimulate industrial expansion by offering to manufacturers certain tax benefits at the most critical state of any business endeavor. Offering it and then taking it away is bad policy.