According to the Cabinet, in the program's first two months, 64 investors announced plans to invest a total of $5.4 million in Kentucky businesses. Those investors are eligible for up to $2.1 million in angel investment tax credits, which is more than two-thirds of the state's allocated funds for the credit in 2015.

The credit isn't limited to in-state investors; out-of-state investors without Kentucky tax liabilities can transfer the credits to someone in the commonwealth. ✰

LOUISIANA

Jindal's Proposal to Cut Tax Credits Irks Business Leaders

by Eric Yauch — eric.yauch@taxanalysts.org

Republican Gov. Bobby Jindal's fiscal 2016 executive budget proposal to scale back the availability of refundable tax credits for companies has angered the local business community, which is calling the proposal a tax increase.

Jindal's budget, released February 27, proposes $24.6 billion for funding, a decrease of 4.7 percent from the 2015 operating budget and an overall reduction of $10 billion in the state's budget since 2008.

Fluctuating oil prices continue to plague the state's economy, contributing to the $1.6 billion shortfall the state faces. In response, Jindal has drafted a plan to significantly reduce the amount of refundable tax credits available to businesses.

Jindal said that in addition to reducing corporate and individual tax rates, the state has paid more than $589 million to companies and individuals as a result of the credits. Jindal's plan would transition most of the existing tax credits from refundable to nonrefundable and reduce the payouts to companies by $526 million. (Prior coverage: *State Tax Notes*, Mar. 9, 2015, p. 583.)

Among the refundable credits on the chopping block is the inventory tax credit, which the state pays to companies to offset their local property tax liabilities for inventory within the locale. Business groups are calling this reduction a tax increase, despite Jindal's claims to the contrary.

Gifford Briggs of the Louisiana Oil and Gas Association said that the elimination of the inventory tax credit amounts to a $400 million tax increase on businesses. "The only reason it's not a tax increase is because Grover Norquist and the [Americans for Tax Reform] have declared that it's not a tax increase," Briggs said. "But the people who are paying more in taxes because of it, or would pay more, certainly feel like it's a tax increase."

"We're coming out of the recession still, optimism is relatively good, but for the governor's office to all of a sudden position this credit as a way to fix the budget problems is the wrong approach," said Dawn Starns of the National Federation of Independent Business. "It's clearly not the way to fix our long-term budget problems."

Courtesy of the Governor of Louisiana 's office.

Republican Louisiana Gov. Bobby Jindal's executive budget proposal would make most of the state's refundable tax credits nonrefundable.

Louisiana's film tax credit is also under the microscope. Lawmakers have already drafted two bills that would rein in the state's overall annual cap amount, specify exactly which expenses qualify for the state's film credit, and limit its transferability. (Prior coverage: *State Tax Notes*, Mar. 2, 2015, p. 501.)

The Legislature will decide what to do with the state's tax credit programs when it convenes on April 13. ✰

Study Calls for Single Sales Factor And Combined Reporting

by Eric Yauch — eric.yauch@taxanalysts.org

Recommendations in a Louisiana tax study presented to the Legislature include single-sales-factor apportionment for all businesses, market-based sourcing for services, and combined reporting.

The study was presented to the House Ways and Means and Senate Revenue and Fiscal Affairs committees on March 1. The report's executive summary recommends an overhaul of the state's tax regime.

Senate President John Alario Jr. (R) and House Speaker Chuck Kleckley (R) authorized $150,000 in funding last year for the independent study, which was conducted by

Louisiana State University economics professor Jim Richardson and Tulane University economics professors Steven Sheffrin and James Alm. (Prior coverage: *State Tax Notes*, Sept. 15, 2014, p. 700.)

"This has given us a lot of food for thought and we're going to be examining the recommendations," Jim Patterson of the Louisiana Association of Business and Industry told Tax Analysts.

Kim Robinson of Jones Walker LLP said that the study focused on both raising revenue for the state and making Louisiana more competitive with its neighbors.

The study examined the state's current tax structure and recommended changes to raise revenue without hindering business development. It called for a single corporate income tax rate of 5 percent in place of the current 4 to 8 percent.

Aside from changing the rates, the study also recommends transitioning from separate entity reporting to combined reporting, which they say is "generally acknowledged as the best method for safeguarding a state against corporate tax strategies to shift income to other locations."

"That would be a very different approach for Louisiana," Jay Adams of Jones Walker LLP said, adding that the Legislature has generally been opposed to combined reporting in the past.

For the state to "get its fair share of income from multistate businesses," the authors recommended using single-sales-factor apportionment for all businesses. Under current law, only manufacturing and merchandising firms can use single-sales-factor apportionment. In terms of sourcing, they recommended moving from cost of production for services to market-based sourcing.

The report recommended establishing a uniform method for collecting state and local sales taxes so Louisiana can comply with the Streamlined Sales and Use Tax Agreement. The authors also recommended expanding the sales and use tax to personal services.

Other recommendations include requiring all development incentives to be justified, designed with a sunset provision, and evaluated regularly. Jaye Calhoun of McGlinchey Stafford PLLC said that this could have the adverse effect of hurting taxpayers with altruistic motives. Calhoun said that taxpayers who invest in small solar companies, for example, aren't necessarily investing because they know that there is a credit in place, but because they want to do a good deed.

The report targeted the inventory tax credit, through which the state reimburses companies for local property taxes on inventory, and the motion picture tax credit. Both credits have been discussed recently by state lawmakers and industry leaders. Republican Gov. Bobby Jindal's 2016 executive budget proposal includes a provision that would make the inventory tax credit nonrefundable, which interest groups opposed. (Related coverage, p. 640.)

The state's film tax credit has also been under scrutiny. State lawmakers have introduced bills that would alter the film tax credit by capping the total amount allowed and limiting its transferability. (Prior coverage: *State Tax Notes*, Mar. 2, 2015, p. 501.)

The authors recommended capping the inventory tax credit at 75 percent and capping the film tax credit so it's no longer an essentially open-ended entitlement program.

Patterson said Richardson, one of the study's authors, acknowledged that the recommendations were not based on the economic consequences in the development of the study and that the final version will include a discussion of those economic impacts. "Whenever you implement tax policy, it affects the behaviors of individuals and businesses, so we're going to be assessing that as we go forward," Patterson said.

"If you look at all of the items on the list, there are a number of them by themselves that are very controversial, like single collection for state and local sales taxes and eliminating the horizontal drilling exemption," Adams said. "A lot of those are just political footballs in and of themselves, regardless of the revenue effect."

The final results of the study are expected this summer. ✰

MAINE

Bill Sponsor Open to Changing Tax Haven Legislation

by Douglas Rooks

At the March 9 public hearing on a measure that would make Maine the sixth state to explicitly target corporate income reported in designated tax haven nations, the bill's sponsor said he was open to changes to LD 341, beginning with the list of countries enumerated.

Rep. Ryan Tipping-Spitz (D), a former member of the Joint Taxation Committee, said that after meeting with Breandán Ó Caolláі, Ireland's consul general in Boston, he is willing to remove Ireland from the list of tax havens in the bill. Ó Caolláі later testified that Ireland is now in compliance with all directives from the European Union concerning corporate tax avoidance and was one of the first EU nations to incorporate the new guidelines in statute.

Tipping-Spitz indicated during his testimony that his flexible approach could go further. "I am willing to change a lot if the committee decides we can move forward on this bill," he said.

The language in LD 341 is substantially the same as that of a measure last year, LD 1120, enacted by lawmakers but vetoed by Gov. Paul LePage (R). The House sustained the veto. (Prior coverage: *State Tax Notes*, May 5, 2014, p. 258.)

Tipping-Spitz said the new bill's approach is closely modeled on legislation in Montana. He said one change he would suggest is a requirement that Maine Revenue Services periodically review tax haven countries and recommend changes, as Montana has done.