FISCAL NOTE

TO: Chief Clerk of the Senate
Chief Clerk of the House

FROM: James A. Davenport, Executive Director

DATE: April 25, 1995

SUBJECT: **HB 1895 - SB 1883**

This bill, if enacted, will cap the amount of finished goods inventory includable in the minimum measure of the franchise tax base at $30,000,000 phased-in over a three year period beginning with $50,000,000 for corporate fiscal years beginning on or after July 15, 1996; $40,000,000 the next year and $30,000,000 the following year. The franchise tax apportionment formula is also modified by excluding inventories of finished goods in excess of the cap from the property factor.

The bill also provides a sales tax exemption for certain types of material handling and racking equipment purchased for use in a new distribution facility subject to certain restrictions. The cost of the new facility must exceed $10,000,000 *excluding land but including equipment* and the equipment must be purchased within one year of completion of the facility.

The fiscal impact from enactment of this bill is estimated to be that the state and local governments will forgo revenue collections beginning in FY 1995-96 of approximately $3,000,000 to the state and

approximately $800,000 to local governments. This estimate is for the provision providing for a sales tax exemption for certain types of material handing and racking equipment.

Enactment of this bill is also estimated to result in a decrease in state revenues from the cap on the amount of finished goods inventory includable in the minimum measure of the franchise tax base. The estimated decrease in revenues is shown below:

FY 1997-98	$2,700,000
FY 1998-99	$3,300,000
FY 1999-2000 & thereafter	$4,000,000

The enactment of this bill is also estimated to result in state expenditures of approximately $12,000 beginning in fiscal year 1996-97 for three years for necessary computer modifications during the phase-in of the franchise tax cap.

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

James A. Davenport, Executive Director