TAX INCENTIVE REPORTING

FOLLOW-UP ON AGENCY COMPLIANCE WITH ACT 191 OF THE 2013 REGULAR SESSION

FINANCIAL AUDIT SERVICES
ISSUED SEPTEMBER 14, 2016

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

September 14, 2016

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Taylor F. Barras,
Speaker of the House of Representatives

Dear Senator Alario and Representative Barras:

This report provides a follow-up to our May 2015 report on agency compliance with Act 191 of the 2013 Regular Session. This Act requires, in part, that agencies annually report to the Legislature the return on investment for their tax incentives and whether these incentives met their intended purposes. Our objective was to determine if state agencies that administer tax incentives are complying with the reporting requirements outlined in Act 191 of the 2013 Regular Session.

I hope this report will benefit you in your legislative and operational decision-making processes.

Sincerely,

Daryl G. Purpera, CPA, CFE
Legislative Auditor

EMS:BQD:EFS:aa

ACT 191 FOLLOW-UP

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Louisiana Legislative Auditor
Daryl G. Purpera, CPA, CFE

Tax Incentive Reporting
Follow-up on Agency Compliance with Act 191 of the 2013 Regular Session

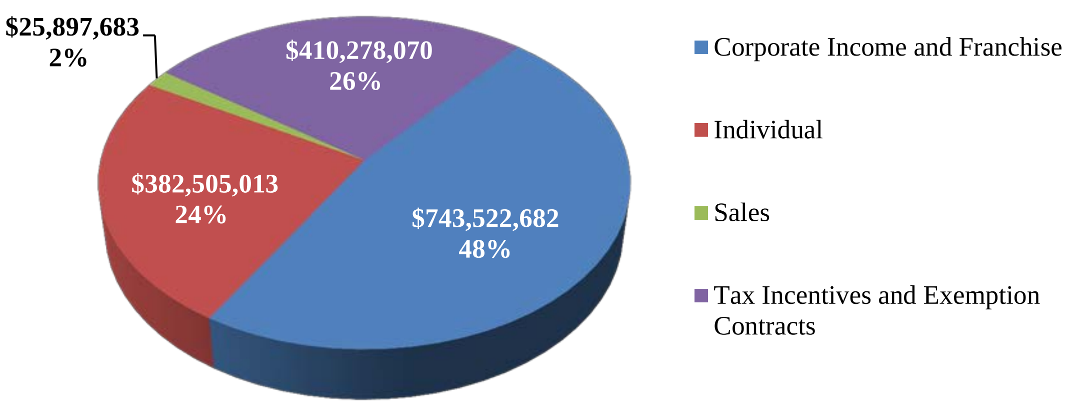
September 2016

Audit Control # 80160128

Introduction

Tax incentives (tax credits and rebates) resulted in a reported $1.6 billion loss in tax revenues to the state of Louisiana for the fiscal year ended June 30, 2015.[1] Exhibit 1 presents a breakdown by type of those tax incentives reported in the 2015-2016 Tax Exemption Budget (TEB).

Exhibit 1
Fiscal Year 2015 Composition of $1.6 Billion in Tax Incentives



Source: Prepared by legislative auditor's staff using the 2015-2016 TEB.

Act 191 of the 2013 Louisiana Regular Legislative Session (Act 191) was enacted to provide the Legislature with accurate and complete information on how much tax incentives cost the state each year. This Act requires that, by March 1 of each year, state agencies that administer tax incentives report to the Legislature information regarding whether or not the incentive met the intended purpose; whether or not the state received a positive return on investment through the incentive; and whether or not there were any unintended effects, benefits, or harm caused by each incentive, including any conflicts with other state laws or regulations.

Act 191 also requires the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs to conduct hearings on the reports every odd-numbered year to "analyze and consider tax incentives that have caused revenue loss to the state in any one of the

[1] 2015-2016 Tax Exemption Budget prepared by the Department of Revenue (unaudited).

three previous fiscal years." The committees may report to the Legislature findings or recommendations determined through these hearings.

A prior Louisiana Legislative Auditor (LLA) report issued May 27, 2015, found that the Legislature had only received information on five of the 79 tax incentives for 2015. In addition, 70 (89%) of the 79 reports due to the Legislature for 2014 were either not submitted or did not comply with all of the reporting requirements.

Exhibit 2:
Agencies Administering Tax Incentives

Agency	Number of Incentives
Department of Revenue (LDR)	47
Louisiana Economic Development (LED)	21
Department of Children and Family Services (DCFS)	5
Department of Culture, Recreation, and Tourism (CRT)	3
Department of Environmental Quality (DEQ)	2
Department of Education (DOE)	1
Total	**79**

Source: Prepared by LLA using the 2015-2016 TEB.

Using the 2015-2016 TEB prepared by the Louisiana Department of Revenue (LDR),[2] we again identified 79 tax incentives administered by six agencies that are subject to the reporting requirements of Act 191. We reviewed the tax incentive reports submitted to the Legislature in 2016 to address the following objective:

Determine if state agencies that administer tax incentives are complying with the reporting requirements outlined in Act 191 of the 2013 Regular Session.

We found 46 (58%) of the 79 tax incentive reports that agencies were required to submit to the Legislature by March 1, 2016, were either not submitted or did not comply with all of the reporting requirements. According to the TEB, the amount of revenue loss from these 46 incentives totaled approximately $1.1 billion in fiscal year 2015. In addition, return on investment information was not consistently reported to the Legislature. As a result, the legislative committees charged with making decisions to change or eliminate costly incentives are not receiving the information they need due to agencies failing to fully comply with this reporting requirement.

Appendix A contains agencies' responses; Appendix B provides our scope and methodology; and Appendix C provides a complete list of tax incentives administered by each agency, including their associated revenue losses as reported in the 2015-2016 TEB for fiscal years 2013, 2014, and 2015.

[2] Louisiana Revised Statute (R.S.) 47:1517 requires LDR to prepare an annual tax exemption budget documenting information on the effects of each exemption, deduction, exclusion, and credit allowed by the state's tax laws.

Objective: Determine if state agencies that administer tax incentives are complying with the reporting requirements outlined in Act 191 of the 2013 Regular Session.

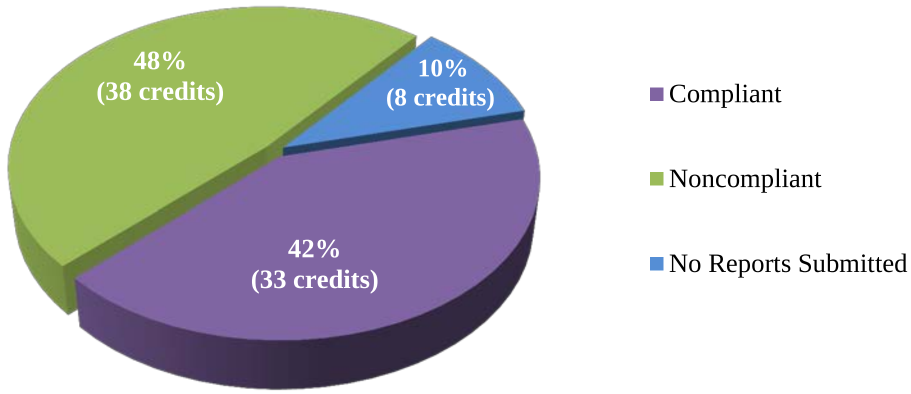
We found that four agencies (LDR, LED, CRT, and DEQ) administering tax credits failed again to comply with certain requirements of Act 191 of the 2013 Regular Session. Specifically, 46 (58%) of the 79 tax incentive reports that agencies were required to submit to the Legislature by March 1, 2016, were either not submitted or did not comply with all of the reporting requirements. As a result, the Legislature does not have the information it needs to determine whether the tax incentives have been successful in meeting their intended purposes and whether they have resulted in a positive return on investment for the state. According to the 2015-2016 TEB, the amount of revenue loss from the 46 tax incentives claimed in fiscal year 2015 for which agencies provided no information or did not comply with reporting requirements totaled approximately $1.1 billion.

The results of our work, including a summary of the information contained in the 2016 reports, including timeliness of submission, purpose/benefits, return on investment, and unintended effects of the tax incentives, are described in more detail below.

Of the 79 tax incentive reports agencies were required to submit to the Legislature by March 1, 2016, 46 (58%) reports were either not submitted or did not comply with all of the reporting requirements.

As shown in Exhibit 3, we found that eight (10%) of the 79 tax incentive reports due by March 1, 2016, were not submitted, and 38 (48%) that were submitted did not meet all of the reporting requirements. For those incentives with negligible or no activity, we only considered agencies noncompliant if no report was submitted.

Exhibit 3
Percentage of Reports in Compliance with Act 191



Source: Prepared by LLA using 2016 Act 191 reports submitted to the Legislature.

Of the eight tax incentives that were not submitted, LED did not submit six, and LDR and CRT each failed to submit one. These eight incentives were the same incentives identified in our prior report.

The total amount of state revenue loss in fiscal year 2015 attributable to these tax incentives was $48,519, based on the 2015-2016 TEB. Exhibit 4 provides a list of those incentives for which no report was submitted. We contacted the agencies responsible for these reports and they provided the following explanations:

- According to CRT, the Cane River Heritage Tax Credit is not its responsibility; however, according to R.S 47:6026, it appears that CRT is the administering agency. CRT may wish to work with the Legislature to clarify its responsibility in relation to this tax incentive.

- LDR management stated that the Credit for Costs to Reprogram Cash Registers was unintentionally left out of its submission and will be included next year.

- LED management stated that it does not believe it is responsible for the Procurement Processing Company Rebate Program; however, according to R.S. 47:6351, LED is the agency to enter into the contracts leading to the credit. LED may wish to work with the Legislature to clarify its responsibility in relation to this tax incentive.

- The other credits listed are either inactive or sunset after 2009; therefore, LED did not submit those reports. The statutes, however, do not eliminate these credits from the reporting requirement.

Exhibit 4
Reports not Submitted in 2016 Tax Incentives and Related Loss

CRT – Cane River Heritage Tax Credit	-
LDR – Credit for Costs to Reprogram Cash Registers	$14,766
LED – Atchafalaya Trace Heritage Area Development Zone Tax Exemption	Negligible
LED – LA Community Economic Development	$12,854
LED – Mentor-Protégé Tax Credit	$20,899
LED – Procurement Processing Company Rebate Program	-
LED – University Research and Development Parks	Negligible
LED – Urban Revitalization Tax Incentive Program	Negligible

Source: Prepared by LLA using the 2015-2016 TEB and reports submitted to the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs.

The 38 submitted reports that did not meet all of the Act 191 reporting requirements were considered noncompliant because they did not report "Return on Investment" information. Of these 38 noncompliant reports, LDR submitted 32, LED submitted five, and DEQ submitted one. These 38 noncompliant reports were for tax incentives with a related revenue loss of more than $1.1 billion.

As stated previously, the Act 191 reports are intended to provide the Legislature with information necessary to evaluate the cost of tax incentives as compared to the benefit the state receives as a result of those incentives. Without "Return on Investment" information, the cost benefit of these incentives cannot be properly evaluated.

Each report must meet requirements per R.S. 47:1517.1 which include that a report must:

- be submitted by March 1 of each year;
- state whether or not the incentive had been successful in meeting its purpose;
- state whether or not the state received a positive return on investment; and
- state whether or not there were any unintended effects, benefits, or harm caused by each incentive, including whether it conflicts with other state laws or regulations.

Exhibit 5 details compliance with Act 191 requirements by agency, which reflects that "Return on Investment" was only reported for 15 tax incentives (an additional 18 were not considered noncompliant because the tax incentives had no activity).

Exhibit 5: Agency Compliance

		Act 191 Requirements			
Agency	**Total Tax Incentive Reports Submitted**	**Timely Submission**	**Purpose/ Beneficiaries**	**Return on Investment (ROI)**	**Unintended Effects**
LDR	46	46	46	14*	46*+
LED	15	15	15	10*	15*+
DCFS	5	5	5	5	5
CRT	2	2	2	2	2
DEQ	2	2	2	1	2+
DOE	1	1	1	1	1
Total	**71**	**71**	**71**	**33**	**71**

*Fourteen incentives reported by LDR and four reported by LED had no activity; therefore, they are not considered noncompliant. Because there was no activity, no ROI could be calculated, and no unintended effects were possible.

+Twenty-nine incentives reported by LDR, seven reported by LED, and one reported by DEQ indicated "none identified" in response to whether there were any unintended effects or legal conflicts.

Source: Prepared by LLA using reports submitted to the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs.

Return on investment was not consistently reported to the Legislature to provide critical data on costly incentives.

Of the 71 reports submitted, 18 had no activity in fiscal year 2015; therefore, no ROI could be calculated. Of the remaining 53 reports submitted in 2016, only 15 included data to calculate ROI. These 15 incentives represent only 29% of the total incentives claimed during fiscal year 2015. As a result, the legislative committees charged with making decisions to change or eliminate costly incentives continue to be limited by the poor response to this reporting requirement.

Exhibit 6 provides a summary of the calculated return and the basis of that calculation for every $1 provided in incentives in fiscal year 2015 for the 15 incentives for which data was reported.

Exhibit 6: Reported Return on Investment by Basis for Every $1 of Incentives Provided			
Agency	**Tax Incentive**	**Fiscal Year 2015 Revenue Loss**	**Fiscal Year 2015 ROI**
Based on Certified Spending[3]			
LED	Motion Picture Investor Tax Credit	$212,850,572	$4.63*
LED	Musical and Theatrical Production Tax Credit[4]	$13,439,537	$11.20/$8.32*
LED	Digital Interactive Media and Software Tax Credit	$13,106,817	$4.05**
DEQ	Purchase of Qualified New Recycling Manufacturing or Process Equipment and/or Service Contracts	$706,219	$5.00
LED	Sound Recording Investor Tax Credit	$271,357	$5.50*
Based on Federal Grants			
DCFS	School Readiness Child Care Directors and Staff	$8,198,222	$0.68+
DCFS	School Readiness Child Care Provider Credit	$4,705,316	$0.48+
DCFS	School Readiness Child Care Credit	$3,247,136	$0.54+
DCFS	School Readiness Fees and Grants to Resource and Referral Agencies Credit	$1,008,741	$0.08+
DCFS	School Readiness Business Supported Child Care Credit	$557,628	$0.37+
Based on Direct Investment			
CRT	Rehabilitation of Historic Structures	$69,480,754	$5.09
CRT	Rehabilitation of an Owner Occupied Residential or Mixed-use Property	$381,497	$8.09
Estimated New State Tax Revenue			
LED	Louisiana Quality Jobs Program	$72,864,143	$1.96
LED	Enterprise Zone Program	$46,910,067	$0.91
Issuing of Student Scholarships			
DOE	Tuition Donation Rebate Program	$60,975	$1.16

* Based on 2014 data.
** Based on 2013 analysis.
+ Auditor calculated using information provided in the Act 191 reports submitted by DCFS.
Source: Prepared by LLA using reports submitted to the House Committee on Ways and Means and the Senate Committee on Revenue and Fiscal Affairs and the 2015-2016 TEB.

We found that five different methodologies were used across five reporting agencies. There were no specifications in the statute regarding the method of calculation used to determine the ROI related to each incentive. With no guidelines or restrictions, the accuracy of the calculation and the appropriateness of the methodology are undetermined. Methodologies used included the following:

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[3] It is important to note that *certified spending* includes payments made to actors, directors, producers, and writers – most of whom live outside of the state of Louisiana and are, therefore, unlikely to spend all of their earnings in the state.
[4] The 2014 data provided by LED reported sales per dollar of tax credit for live performance production ($11.20) and live performance infrastructure ($8.32).

- Based on Certified Spending - Calculated using certified spending in the state divided by the fiscal year revenue loss. Certified spending in the state is the total of qualified expenditures, usually verified by a certified public accountant, certified by the administering agency of each tax incentive. For instance, certified spending for the Motion Picture Investor Tax Credit is based on expenditures made by a motion picture production company in a state-certified production. R.S. 47:6007 defines what these expenditures are and how they are certified by LED and, finally, how the credits are to be claimed by the taxpayers. Each credit has specific requirements defined within the applicable statutes, as listed in Appendix C. The administering agencies preparing calculations of ROI using the certified spending basis should be able to support the total expenditures used with detailed certified expenditure reports.

- Based on Federal Grants - The ROI from incentives administered by DCFS was calculated by dividing the amount of tax credits used as state match for federal funds by the fiscal year revenue loss.

- Based on Direct Investment - The ROI from incentives administered by CRT was calculated using direct investment in income-producing buildings, which is defined as the eligible costs and expenses incurred during the rehabilitation of certain historic structures. For example, eligible costs and expenses for the Rehabilitation of Historic Structures tax credit are defined in Section 47c(2)(A) of the Internal Revenue Code of 1986. Taxpayers must submit an application to CRT and the credit is earned as a percentage of the eligible costs and expenses. Therefore, CRT should also be able to support the total costs and expenses used with reports provided by taxpayers.

- Based on Estimated New State Tax Revenue - Calculated using state revenue generated as a result of the tax incentive program divided by the fiscal year revenue loss. State revenue generated can include direct payroll spending, purchases of goods from Louisiana businesses and services, new capital investment in Louisiana business facilities, and indirect activity generated as a result of the direct spending.

- Based on Issuing of Student Scholarships - The ROI from the incentive administered by DOE was calculated using the amount of student scholarships issued as a result of the rebate.

Unintended effects were identified for 16 tax incentives.

The tax incentives established by Louisiana Revised Statutes are designed and intended to support development in certain industries or limit the tax burden on specific individuals or endeavors. Certain side effects of a tax credit may not be foreseen when established by the Legislature and may result in a negative impact to the state. It is also important for any conflicts with laws and regulations to be reported to the Legislature.

Most of the reports stated that no inadvertent effects or legal conflicts had been identified; however, 16 reports included unintended side effects. Some included unintended benefits such as the ability to use incentives to help meet maintenance of effort requirements for certain federal programs; increased access to recycling services; reduced financial strain on elderly, disabled, students, and parents of dependent children; and parents choosing higher quality care for their children.

Unintended negative effects were reported in six of the reports submitted in 2016, as summarized in Exhibit 7. Reporting negative side effects allows the Legislature to evaluate the tax incentives and applicable statutes to eliminate or reduce the unintended negative impact on the state, which could include additional revenue loss due to unintended beneficiaries.

Exhibit 7
Unintended Negative Effects of Certain Tax Incentives

Tax Credit	Unintended Negative Effects
Insurance Company Premium Tax Credit	LDR reported that R.S. 22:832, *Reduction of tax when certain investments are made in Louisiana*, and R.S. 22:2058, *Powers and duties of the association*, reduce the impact of the premium tax credit.
Digital Interactive Media and Software Tax Credit	LED has found related party transactions to be problematic when submitted as qualifying expenditures. It can be difficult to ascertain the economic reality of the transaction - whether it supports development of the targeted industry and creates a benefit to the state - and there is significant potential for abuse and distortion of the program intent. LED has also identified problems with the quality of audited expenditure reports submitted by applicant companies; however, this issue was addressed by Act 412 of the 2015 Regular Session.*
Enterprise Zone Program	LED reported that a capital expenditure incentive is available without dollar limit and can result in a cost in excess of the benefit.
Motion Picture Investor Tax Credit	LED has found related party transactions to be problematic when submitted as qualifying expenditures. It can be difficult to ascertain the economic reality of the transaction - whether it supports development of the targeted industry and creates a benefit to the state - and there is significant potential for abuse and distortion of the program intent. LED has also identified problems with the quality of audited expenditure reports submitted by applicant companies; however, this issue was addressed by Act 412 of the 2015 Regular Session.*
Rehabilitation of Owner Occupied Residential or Mixed-use Property	This program is extremely labor intensive for the relatively small Tax Incentives Staff within the Division of Historic Preservation. Most applicants have never worked on historic rehabilitation projects and are unfamiliar with the standards to which projects are held in order to earn the tax credit. The domino effect we see quite frequently with the State Commercial tax credit program (where one property rehab leads to additional property rehabs, either by the same owner or within the same area) does not appear to be spurred by investment in the State Residential tax credit program.
Rehabilitation of Historic Structures	CRT reported that the overwhelming response to the program has led to an inability of allocated staff to keep up with the program demand.

*Act 412 of the 2015 Regular Session added "*the Department of Economic Development shall directly engage and assign an independent certified public accountant, hereinafter referred to as 'CPA' or tax attorney to prepare for the department any required expense or expenditure verification report on a tax credit applicant's cost report of expenditures or claimed expenditures.*"
Source: Tax incentive reports submitted by LDR, LED, and CRT in 2016.

Recommendation: All agencies that administer tax incentives should ensure the required reports are submitted, even when there is minimal or no activity, and include all necessary information. Administering agencies should track and maintain the necessary statistics to accurately calculate the ROI in relation to the lost tax revenue to the state. Further, agencies should establish consistent procedures to identify and report unintended effects of tax incentives and maintain support for all conclusions.

Matters for Legislative Consideration: In order to comply with Act 191 reporting requirements, agencies may need further guidance related to the calculation of ROI and the identification of unintended benefits. Additional legislation could ensure more consistency and reliability of the reported ROI and lead to a more complete consideration of unintended effects. Legislation could include a requirement to track and maintain statistics specific to the tax incentives and allow for data sharing across agencies in order to report the most reliable calculations and conclusions.

Summary of LDR Response: LDR concurs with LLA's recommendation and recognizes the importance of the required reporting. The agency outlined the plan in progress to improve incentive reporting in future years.

Summary of LED Response: LED concurs with LLA's recommendations. The agency also highlights the methodology used to calculate ROI for entertainment incentives and suggests an alternative methodology using only state taxes received less state certified tax credits should be calculated.

Summary of CRT Response: CRT acknowledged that no report was submitted for the Cane River Heritage Tax Credit, however, states that no claims have been made for the credit. The agency anticipates that the credit will be repealed or sunset, but will submit a report as required in 2017 if not repealed.

APPENDIX A: MANAGEMENTS' RESPONSES

State of Louisiana
Department of Revenue

JOHN BEL EDWARDS
GOVERNOR

KIMBERLY LEWIS ROBINSON
SECRETARY

August 10, 2016

Mr. Daryl Purpera
Louisiana Legislative Auditor
1600 N. 3rd Street
Baton Rouge, LA 70804

Re: Tax Incentive Reporting – Follow up on Act 191 of the 2013 Regular Session

Dear Mr. Purpera:

Act 191 of the 2013 Regular Session mandated that each state agency responsible for administering a tax credit or tax rebate submit an annual report to the Legislature regarding each tax incentive administered by the agency. Act 191 was enacted to provide the Legislature with accurate and complete information on the cost of the tax incentives to the state.

The Louisiana Department of Revenue (LDR) provides the following response to the Louisiana Legislative Auditor (LLA) regarding the aforementioned follow up on Act 191 tax incentive reporting.

1. **All agencies that administer tax incentives should ensure the required reports are submitted, even when there is minimal or not activity, and include all necessary information. Administering agencies should track and maintain the necessary statistics to accurately calculate the return on investment (ROI) in relation to the lost tax revenue to the state. Further, agencies should establish consistent procedures to identify and report unintended effects of tax incentives and maintain support for all conclusions.**

LDR recognizes the importance of providing accurate and complete information to the Legislature. To ensure the information in LDR's Act 191 Report is accurate and complete, the agency recently hired an economist to assist with the data compilation and ROI analysis for the tax incentives administered by the agency. We are also evaluating software to assist in preparing the report and conducting the analysis. As recommended in the LLA follow-up, LDR is reaching out to other Act 191 reporting agencies to develop a consistent ROI procedure for all tax incentives. We are also working with the other state agencies involved in administering tax incentives to develop a consistent methodology to identify and report any unintended effects of the incentives and maintain supporting documentation for all conclusions.

Contributing to a better quality of life
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The Credit for Costs to Reprogram Cash Registers was inadvertently omitted from the report of the tax credits and rebates administered by the LDR. LDR has noted the oversight and ensures the inclusion of the Credit for Costs to Reprogram Cash Registers credit in all future Act 191 reporting.

Please feel free to reach out to our agency for any additional information or clarification required by your office.

Sincerely,

Kimberly Lewis Robinson
Secretary

LED | LOUISIANA ECONOMIC DEVELOPMENT

John Bel Edwards
Governor

Don Pierson
Secretary

August 9, 2016

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804-9397

Re: Tax Incentive Reporting-Agency Compliance with Act 191 of the 2013
Regular Session - LED

Dear Mr. Purpera:

We are in receipt of the LLA report on compliance of Act 191 of the 2013 session and appreciate the opportunity to respond.

This letter serves as the official response to the recommendations relative to the objective of LLA to determine if state agencies that administer tax incentives are complying with the reporting requirements outlined in Act 191 of the 2013 Regular Session

The report recommends all agencies that administer tax incentives should ensure the required reports are submitted, even when there is minimal or no activity, and include all necessary information. In future reports, LED will include incentives which are inactive.

There were six programs which LED was cited as not reporting. The University Research and Development Parks program as well as the Urban Revitalization Tax Incentive program are inactive programs. The LA Community Economic Development program sunset on August 15, 2010, and the Mentor-Protégé Tax Credit program sunset on December 31, 2011. The Procurement Processing Company Rebate program is administered by LDR and the Atchafalaya Trace Heritage Area Development Zone Tax Exemption, now an inactive program, was previously administered by CRT. For these reasons, LED excluded these programs from the report.

As stated in the LLA report, there are various methodologies used to calculate return on investment (ROI). The LED entertainment incentives presented in the report are based on certified spending in the state divided by the fiscal year revenue loss which actually represents the economic impact of the incentive. The ROI should be calculated by computing the state taxes received less the state certified tax credits.

LED will continue to calculate the ROI in this manner, unless otherwise directed by the legislature to implement a specific economic model for these incentives. Also, because of the intrinsic value associated with the entertainment incentives from the marketing and promotion of our state, this value cannot be reflected in a ROI calculation.

Thank you again for the opportunity to respond to the Act 191 compliance report.

Sincerely,

Anne G. Villa

Anne G. Villa
Undersecretary

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State of Louisiana
OFFICE OF THE LIEUTENANT GOVERNOR

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August 4, 2016

Daryl G. Purpera, CPA, CFE
Legislative Auditor
Louisiana Legislative Auditor
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

Re: Tax Incentive Reporting, Follow-Up on Agency Compliance with Act 191 of the 2013 Regular Session

Dear Mr. Purpera,

In response to your July 29, 2016 request, please accept this letter as our official response to the audit findings and recommendations in the above referenced report.

Your report states that CRT failed to submit the annual tax incentive report to the legislature for the Cane River Heritage Tax Credit as required by Act 191 of the 2013 La. Regular Legislative Session. La. R.S. 47:6026 appoints CRT as the administering agency of the tax incentive; therefore, the agency is responsible for submitting the report. However, CRT met with the House Committee on Ways and Means in January 2016, where we informed them that credits have never been issued for this tax incentive and that neither CRT nor the Cane River Heritage Area Board promotes the incentive due to lack of interest. We expect the Committee to recommend that La. R.S. 47:6026 be repealed or sunset on January 1, 2018. If it is not repealed, our office will submit the tax incentive report by March 31, 2017, as required.

Thank you for the opportunity to respond to this draft audit report. If we can be of further assistance, please do not hesitate to contact our office.

Sincerely,

Rennie S. Buras, II
Deputy Secretary

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APPENDIX B: SCOPE AND METHODOLOGY

We conducted procedures to provide information to the Legislature on the response and impact of Act 191 of the 2013 Regular Legislative Session (Act 191). Our objective was to determine if state agencies that administer tax incentives are complying with the reporting requirements outlined in Act 191 of the 2013 Regular Session.

To accomplish our objective, we performed the following steps:

- Reviewed requirements of Act 191.
- Obtained the 2016 tax incentive reports from the House Ways and Means Committee and the Senate Committee on Revenue and Fiscal Affairs.
- Obtained and reviewed the fiscal year 2015-2016 Tax Exemption Budget to determine the incentives requiring Act 191 reporting and the responsible agencies.
- Compiled the data reported by the tax incentive administering agencies.
- Analyzed the tax incentive reports submitted for the 2016 reporting year.
- Discussed Act 191 reporting requirements with personnel from the state agencies administering the tax incentives.

APPENDIX C: ACT 191 TAX INCENTIVES

Tax Incentive	Legal Citation	FY 15 Revenue Loss	FY 14 Revenue Loss	FY 13 Revenue Loss
Louisiana Department of Revenue				
1. Inventory Tax/Ad Valorem Tax	R.S. 47:6006	$551,659,608	$452,718,034	$419,627,798
2. Net Income Taxes Paid to Other States	R.S. 47:33	108,739,220	86,173,191	71,427,762
3. Solar Energy System	R.S. 47:6030	80,677,750	63,441,115	39,004,042
4. Ad Valorem Tax Credit for Offshore Vessels	R.S. 47:6006.1	76,529,496	45,219,794	41,457,576
5. Earned Income Tax Credit	R.S. 47:297.8	47,514,338	47,849,187	46,170,871
6. LA Citizens Property Insurance Corporation Assessment	R.S. 47:6025	45,467,890	45,674,688	45,873,643
7. Insurance Company Premium Tax	R.S. 47:227	41,492,489	25,503,898	23,602,003
8. Ad Valorem Tax Paid by Certain Telephone Companies	R.S. 47:6014	26,216,232	22,643,842	24,097,188
9. Vendor's Compensation	R.S. 47:306(A)(3)(a)	25,882,917	25,648,496	28,086,286
10. Certain Child Care Expenses	R.S. 47:297.4	17,777,817	18,638,764	18,357,799
11. Education Credit	R.S. 47:297(D)	16,619,051	17,005,799	16,370,759
12. Conversion of Vehicles to Alternative Fuel	R.S. 47:6035	7,145,110	4,148,005	3,464,055
13. Ad Valorem Tax on Natural Gas	R.S. 47:6006	7,059,774	4,259,992	3,701,599
14. New Markets Tax Credit	R.S. 47:6016	2,912,091	19,503,726	21,969,519
15. Certain Disabilities	R.S. 47:297(A)	2,861,300	2,910,425	2,810,513
16. Contributions of Tangible Personal Property of Sophisticated and Technological Nature to Educational Institutions	R.S. 47:37, R.S. 47:287.755	1,423,426	980,618	819,714
17. Special Allowable Credits	R.S. 47:297(B)	1,191,811	1,196,601	944,615
18. Milk Producers Tax Credit	R.S. 47:6032	1,158,750	1,555,702	1,810,000
19. Apprenticeship Tax Credit	R.S. 47:6033	1,141,366	1,505,674	957,844
20. Small-town Doctors/Dentists	R.S. 47:297(H)	878,947	907,732	1,098,387
21. Sugarcane Transport Credit	R.S. 47:6029	682,955	2,744,431	5,733,693
22. New Jobs Credit	R.S. 47:34, R.S. 47:287.749	658,424	579,651	295,681
23. Employment-related Expense for Maintaining Household for Certain Disabled Dependents	R.S. 47:297.2	361,246	378,445	293,760
24. Credit for Amounts Paid by Certain Military Service Members for Obtaining Louisiana Hunting & Fishing Licenses	R.S. 47:297.9	144,742	131,204	123,362
25. Educational Expenses Incurred for Degree Related to Law Enforcement	R.S. 47:297(J)	77,584	76,412	105,668

Tax Incentive	Legal Citation	FY 15 Revenue Loss	FY 14 Revenue Loss	FY 13 Revenue Loss
Louisiana Department of Revenue (Cont.)				
26. Donations of Material, Equipment, or Instructors Made to Certain Training Providers	R.S. 47:6012	$48,951	$214,630	$192,815
27. Accessible and Barrier-Free Constructed Home	R.S. 47:297(P)	46,866	40,972	37,336
28. Donations to Assist Qualified Playgrounds	R.S. 47:6008	38,913	39,859	38,158
29. Louisiana Basic-Skills Training	R.S. 47:6009	23,492	38,346	18,402
30. Living Organ Donation Credit	R.S. 47:297(N)	18,730	22,845	11,736
31. Purchase of Bulletproof Vest	R.S. 47:297(L)	14,886	16,432	15,253
32. Credit for Costs to Reprogram Cash Registers	Acts 1990, No. 386, Section 4	14,766	27,404	16,111
33. Gasoline and Special Fuels Taxes for Commercial Fisherman	R.S. 47:297(C)	10,043	25,066	23,374
34. Bone Marrow Donor Expense	R.S. 287.758, R.S. 47:297(I)	Negligible	Negligible	Negligible
35. Certain Refunds Issued by Utilities	R.S. 47:265, R.S. 47:287.664	Negligible	-	26,998
36. Credit for Debt Issuance Costs	R.S. 47:6017	Negligible	Negligible	28,567
37. Employment of Certain First-time Drug Offenders	R.S. 47:297(K)	Negligible	Negligible	Negligible
38. Employment of Certain First-time Nonviolent Offenders	R.S. 47:287.752, R.S. 47:297(O)	Negligible	22,356	12,572
39. Family Responsibility	R.S. 47:297(F), R.S. 46:449	Negligible	-	49,874
40. Hiring Eligible Re-entrants	R.S. 47:287.748	Negligible	-	-
41. Cash Donations to the Dedicated Research Investment Fund	R.S. 51:2203	-	-	Negligible
42. Credit for Purchases from Prison Industry Enhancement Contractors	R.S. 47:6018	-	-	-
43. Donations to Public Elementary or Secondary Schools	R.S. 47:6013	-	-	Negligible
44. Employment of the Previously Unemployed	R.S. 47:6004	-	Negligible	83,185
45. Long-term Care Insurance Premiums Credit	R.S. 47:297(M)	-	-	-
46. Neighborhood Assistance	R.S. 47:35, R.S. 287.753	-	-	12,525
47. Vehicle Alternate Fuel Usage	R.S. 47:287.757, R.S. 47:38	-	Negligible	Negligible
LDR Total Revenue Loss		**$1,066,490,981**	**$891,843,336**	**$818,771,043**
Louisiana Economic Development				
1. Motion Picture Investor Tax Credit	R.S. 47:6007 et seq.	$212,850,572	$250,378,776	$148,203,276
2. Louisiana Quality Jobs Program	R.S. 51:2451 et seq.	72,864,143	55,779,923	51,318,246
3. Enterprise Zones	R.S. 51:1781 et seq.	46,910,067	56,466,047	50,876,337
4. Research and Development Tax Credit	R.S. 47:6015	45,265,674	25,895,753	24,232,875
5. Musical and Theatrical Productions Tax Credit	R.S. 47:6034	13,439,537	8,754,304	4,948,816

Tax Incentive	Legal Citation	FY 15 Revenue Loss	FY 14 Revenue Loss	FY 13 Revenue Loss
Louisiana Economic Development (Cont.)				
6. Digital Interactive Media and Software Tax Credit	R.S. 47:6022	$13,106,817	$15,031,546	$7,302,157
7. Angel Investor Tax Credit and Jobs Program	R.S. 47:6020 et seq.	1,119,191	1,564,900	1,822,774
8. Retention and Modernization Credit	R.S. 51:2399.1-6	760,848	180,941	857
9. Sound Recording Investor Tax Credit	R.S. 47:6023	271,357	151,561	177,421
10. Technology Commercialization Credit and Jobs Program	R.S. 51:2351 et seq.	177,314	201,377	104,735
11. Competitive Projects Payroll Incentive Program	R.S. 51:3121	53,625	-	-
12. Mentor-Protégé Tax Credit	R.S. 47:6027	20,899	15,584	22,024
13. LA Community Economic Development	R.S. 47:6031	12,854	Negligible	-
14. Atchafalaya Trace Heritage Area Development Zone Tax Exemption	R.S. 25:1226 et seq.	Negligible	Negligible	6,219
15. University Research and Development Parks	R.S. 17:3389	Negligible	Negligible	1,994
16. Urban Revitalization Tax Incentive Program	R.S. 51:1801	Negligible	-	23,224
17. Corporate Headquarters Relocation Program	R.S. 51:3111-3115	-	-	-
18. Corporate Tax Apportionment Program	R.S. 47:4331	-	-	-
19. Ports of Louisiana - Import Export Cargo Credit	R.S. 47:6036	-	-	-
20. Ports of Louisiana – Investor Tax Credit	R.S. 47:6036	-	-	-
21. Procurement Processing Company Rebate Program	R.S. 47:6351	-	-	-
LED Total Revenue Loss		**$406,852,898**	**$414,420,712**	**$289,040,955**
Department of Culture, Recreation, and Tourism				
1. Rehabilitation of Historic Structures	R.S. 47:6019	$69,480,754	$54,165,641	$52,811,147
2. Rehabilitation of an Owner Occupied Residential or Mixed-use Property	R.S. 47:297.6	381,497	275,457	303,818
3. Cane River Heritage Tax Credit	R.S. 47:6026	-	-	-
CRT Total Revenue Loss		**$69,862,251**	**$54,441,098**	**$53,114,965**
Department of Children and Family Services				
1. School Readiness Child Care Directors and Staff	R.S. 47:6106	$8,198,222	$8,114,353	$7,093,663
2. School Readiness Child Care Provider Credit	R.S. 47:6105	4,705,316	4,662,556	5,506,820
3. School Readiness Child Care Credit	R.S. 47:6104	3,247,136	3,172,427	2,932,668
4. School Readiness Fees and Grants to Resource and Referral Agencies Credit	R.S. 47:6107(A)(2)	1,008,741	596,792	468,784
5. School Readiness Business Supported Child Care Credit	R.S. 47:6107(A)(1)	557,628	624,842	421,640
DCFS Total Revenue Loss		**$17,717,043**	**$17,170,970**	**$16,423,575**

Tax Incentive	Legal Citation	FY 15 Revenue Loss	FY 14 Revenue Loss	FY 13 Revenue Loss
Department of Environmental Quality				
1. Purchase of Qualified New Recycling, Manufacturing, or Process Equipment and/or Service Contracts	R.S. 47:6005	$706,219	$4,030,655	$5,760,055
2. Brownfields Investor Tax Credit	R.S. 47:6021	513,081	75,606	529,924
DEQ Total Revenue Loss		**$1,219,300**	**$4,106,261**	**$6,289,979**
Department of Education				
1. Donations to School Tuition Organization	R.S. 47:297(P)	$60,975	-	-
DOE Total Revenue Loss		**$60,975**	**-**	**-**
Total Revenue Loss		**$1,562,203,448**	**$1,381,982,377**	**$1,183,640,517**
Source: 2015-2016 Tax Exemption Budget.				