LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 578** HLS 25RS 714
Bill Text Version: **RE-REENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 3, 2025 8:19 PM
Author: EMERSON
Dept./Agy.: Revenue
Subject: Sales Tax corrections from Act 11 of 2025 ES3
Analyst: Mimi Blanchard

TAX/SALES & USE RR1 DECREASE GF RV See Note

Provides with respect to state and local sales and use taxes and exemptions to those taxes

Current law imposes state and local sales taxes on tangible personal property and digital products at rates of 2%, 1%, 1%, and 1%, respectively, with 0.03% of 1% state tax allocated to tourism. Act 11 of 2024 ES3 increased the sales tax rate, broadened the base and revised the order and location of many areas of sales tax law. Current law allows a local option to exempt from sales tax certain transactions.
Proposed law retroactively adjusts the dedication to the Tourism Promotion District to match the 0.03% levy in place prior to Act 11 and creates the Local Revenue Fund. Proposed law retroactively adjusts various legal citations to align with LDR interpretations of intent when Act 11 was enacted by reinstating certain state and local exemptions that were repealed in Act 11. Proposed law retroactively makes certain local exemptions mandatory that were optional prior to their repeal in Act 11. Proposed law reinstates certain state and local exemptions to pre-Act 11 status. Proposed law provides for certain new exemptions effective 7/1/25. Retroactive provisions effective 1/1/25.

EXPENDITURES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	**SEE BELOW**	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

REVENUES	2025-26	2026-27	2027-28	2028-29	2029-30	5 -YEAR TOTAL
State Gen. Fd.	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	
Agy. Self-Gen.	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	
Ded./Other	**INCREASE**	**INCREASE**	**INCREASE**	**INCREASE**	**INCREASE**	
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	**DECREASE**	
Annual Total						

EXPENDITURE EXPLANATION

LDR may incur expenses or $52,750 related to administrative requirements. LFO believes that the department can absorb this amount within its current budget but may require additional resources if the aggregate impact of all bills enacted during this session is substantive.

The Office of Motor Vehicles (OMV) anticipates initial costs of approximately $3,500 to modify vehicle sales tax systems to apply the exemption for adaptive driving equipment to local taxes. OMV expects to absorb this cost unless coupled with additional system changes.

The bill adjusts the dedication for the Tourism Promotion District (TPD) to 3% of 1% of sales tax collections, which is the same rate of the TPD levy prior to Act 11. Once effective, the TPD dedication will receive about $16.2 M in FY 25 and $35.9 M in FY 26 (and a similar amount in the out years) from the SGF. House and Senate rules indicate that a dedication of $100,000 or more in SGF is treated as a fiscal cost, which forms the basis for dual referral.

Treasury requires resources to create and administer funds, as created in the bill. Should aggregate session action result in the creation of funds beyond that which can be absorbed within existing resources, additional funding may be ncecessary.

REVENUE EXPLANATION

The bill aligns citations and law with interpreted intent concerning state and local sales taxation. In some instances, Act 11 of 24 ES3 altered the sales tax base, which has been in effect since 1/1/25, or for two months of remittances: March and April receipts (January activity is due February 20 which is reported in March). LDR reports collections as interpreted, not necessarily as written, so LDR collections may not reflect the underlying statutory authorizations and, thus, the expected fiscal impacts. In most instances, the bill appears to retroactively change law to match the LDR interpretation and collection, though LFO has not been able to verify that all statutory references are now intact and in keeping with legislative intent. **The LFO anticipates a decrease of SGF, SGR and local funds beginning in FY 26 due to various transactions that were taxable under Act 11 becoming exempt in the bill** occurring in addition to the following descriptions.

Effective retroactively to January 1, 2025

The bill adjusts the dedication for the **Tourism Promotion District (TPD)** to 3% of 1% of sales tax collections, which is the same rate of the TPD levy prior to Act 11. **The TPD dedication will receive about $16.2 M in FY 25, $35.9 M in FY 26 (and a similar amount in the out years) from the SGF** as recognized on 5/21/25.

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Senate Dual Referral Rules

[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}

[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}

[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

Effective retroactively to January 1, 2025 (continued)

The bill creates the **Local Revenue Fund**, which receives proceeds from the additional 5% state tax on telecommunications services to be used solely to offset local costs of exempting the ad valorem inventory tax. **The fund will receive an estimated $18.3 M in FY 25, $42.8 M in FY 26, $39.5 M in FY 27, $36.5 M in FY 28, $33.8 M in FY 29, and $31.4 M in FY 30 from the SGF** as recognized on 5/21/25.

Information Services: The bill provides for a state and local sales tax exemption on access fees to Multiple Listing Services (MLS) that are available only to real estate professionals. To the extent any jurisdictions were previously taxing MLS access fees, this provision may result in a **minimal reduction in state and local sales tax revenue**.

Effective July 1, 2025

Based on available data, these provisions are expected to change SGF and local revenue by the following estimated amounts:

Ships and vessels (digital products): The bill expands existing vessel exemptions to include digital products such as prewritten software and information services used in construction, repair, or operation. These may include navigation systems, diagnostics, performance monitoring, and integrated logistics platforms. As digital tools become more common in shipbuilding and operations, more purchases may qualify for exemption. **An indeterminable but potentially significant (possibly millions) decrease in state and local revenue due to expanding exemptions to high-cost software and services.**

Adaptive driving equipment: The bill provides a local sales and use tax exemption for purchases of adaptive driving equipment and motor vehicle modifications prescribed for personal use by a physician, a licensed chiropractor, or a driver rehabilitation specialist licensed by the state. The Office of Motor Vehicles (OMV) reports a 3-year average of 38 vehicles in the state with adaptive equipment subject to the state sales tax exemption. **The average annual local sales tax collection for these vehicles was about $83,000, which is the estimated impact to local sales tax revenue.**

VCOM: The bill retains the existing sales tax exemption for purchases by certain independent higher education institutions and expands it to include the Edward Via College of Osteopathic Medicine (VCOM) in Monroe. VCOM supports an estimated 600 to 700 students at its Monroe campus, with average annual expenditures of about $43,700 per student in 2025 (using inflation adjustments from previously reported estimates). Estimates are made by assuming 20% of spending is taxable at 5% state and 5.99% local tax rate, though actual revenue losses will depend on VCOM's taxable purchase per year. **LFO estimates reductions of approximately $260,000 in state general fund and $300,000 in local revenue annually beginning in FY 26.**

Contractors and subcontractors on public projects: While current law allows public entities to exempt contractor purchases through agency agreements, not all public construction projects utilize this mechanism. By mandating an extension of the exemption to all contractors and subcontractors on qualifying public projects, the bill may reduce collections in cases where taxes would have otherwise been paid. **An indeterminable, but potentially significant, decrease in state and local sales tax revenues depending on implementation and enforcement.**

Purchases for projects on publicly owned property leased to private entities under payment in lieu of taxes (PILOT) or similar agreements do not qualify for a state and local sales tax exemption for contractor purchases through agency agreements. The **fiscal impact is indeterminable** because it is unclear how many new or existing contracts would have been exempt under current law or the total value of taxable purchases across jurisdiction (see Contractor section above).

LDR is authorized to retain 1% of sales tax and typically reverts some amount back to the state general fund. The provisions of the bill may impact amount reverted to the SGF from LDR.

	FY 25	FY 26	FY 27	FY 28	FY 29	FY 30
CRT Tourism Promotion	($16,200,000)	($35,900,000)	($35,900,000)	($35,900,000)	($35,900,000)	($35,900,000)
Local Revenue Fund	($18,300,000)	($42,800,000)	($39,500,000)	($36,500,000)	($33,800,000)	($31,400,000)
VCOM	-	($ 260,000)	($ 260,000)	($ 260,000)	($ 260,000)	($ 260,000)
Ships/Vessels	-	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE
Contractors/Subcontractors	-	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE
Information Services (MLS)	-	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE
TOTAL	**$34,500,000**	**$78,960,000**	**$75,400,000**	**$72,660,000**	**$69,700,000.**	**$67,560,000**

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		[x] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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