

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 27** HLS 162ES 42

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: June 10, 2016	2:23 PM	Author: BROADWATER
Dept./Agy.: Revenue		Analyst: Deborah Vivien
Subject: Defines raw material for further processing to be excluded		

TAX/SALES & USE EG INCREASE GF RV See Note Page 1 of 1
Changes the exclusion for sales of materials for further processing to an exemption for sales of raw materials for further processing (Item #48)

Current law provides an exclusion from state and local sales tax for the sale of materials for further processing into articles of tangible personal property for sale at retail.

Proposed law retains the exclusion and provides further descriptions for eligible raw materials for further processing. The raw materials must become a recognizable and identifiable component of the primary end product and be beneficial to the primary end product. The raw materials must also be material for further processing and purchased for the primary purpose of inclusion into the primary end product. The bill is effective for all pending refund claims, applicable for all non-prescribed tax periods and applicable to all claims filed on or after the effective date.

Effective upon signature.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Annual Total						

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The bill retains the sales tax exclusion for materials for further processing but more specifically defines raw materials for further processing. According to the Department of Revenue, this legislation is expected to mitigate the state and local exposure regarding a recent decision providing a broader interpretation of further processing by allowing the dual purpose use of raw materials to qualify for the exclusion. This bill limits the exclusion to primary purpose. According to the Department and committee testimony, the bill may also restrict existing interpretations regarding raw materials purchased for primary purpose, which could also significantly increase sales tax collections.

The fiscal impact could be significant since, in the absence of this bill, many items previously considered taxable may be excluded due to the recent decision. Further, if the bill makes taxable additional raw material purchases currently excluded due to purpose, increase to the general fund and local funds could be substantial.

The Department is not able to determine with certainty the magnitude of the impact without detailed research since each production process would require individual scrutiny.

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|----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

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