

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 655** HLS 17RS 1337  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.: **w/ PROP HSE COMM AMD**  
 Sub. Bill For.:

<b>Date:</b> May 8, 2017 5:33 PM	<b>Author:</b> REYNOLDS
<b>Dept./Agy.:</b> REVENUE	<b>Analyst:</b> Benjamin Vincent
<b>Subject:</b> Sales Tax: Services	

TAX/SALES & USE OR +\$202,000,000 GF RV See Note Page 1 of 2  
 Adds sales of certain services to the sales and use tax base, and defines certain media as tangible personal property for the purposes of sales and use tax.

Current law imposes state sales and use taxes on tangible personal property at a combined rate of 5% until July 1, 2018, at which time a 4% rate will be imposed.

Proposed law adds sales of several services to the sales and use tax base, and expands the definition of tangible personal property to include several types of media.

Effective October 1, 2017.

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

<b>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$153,000,000	\$202,000,000	\$202,000,000	\$202,000,000	\$202,000,000	<b>\$961,000,000</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (in this case \$51,000). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

**REVENUE EXPLANATION**

Proposed law adds sales of certain services to the state sales and use tax base, and defines several media items as tangible personal property for the purposes of sales and use tax. (A list of these services and media items is included on page 2.)

Significant caution should be taken when considering the estimated revenue impacts of proposed law. Transaction data capable of providing anything better than a rough estimate for either provision is not available. Additionally, significant collections challenges exist, particularly with certain digital media. It is possible that actual tax collections would be materially smaller than implied by the estimated tax base.

An estimate of a provision similar to proposed law, based on Census Bureau data compiled by the Revenue Dept (LDR), suggests that the provision would yield \$219 million, using the 4% rate provided by current law for FY19. Another estimate, based on Louisiana sales and trade flow data contained in a state input-output model (IMPLAN), suggests the revenue gain would be \$202 million. Given the fact that some digital media transactions are already taxed, the revenue impacts above assume the lower of the two estimates.

LDR notes in Revenue Ruling 10-001 that purchases of digital media, including downloads, and one-time or subscription access to software, applications, and entertainment media are already considered subject to sales and use tax. LDR also notes that only some of these transactions are currently taxed. The challenge of effectively collecting taxes on these already-taxable transactions is not likely to be mitigated by proposed law.

The revenue impacts above reflect a 4% tax rate for FY19-FY22, a 5% rate applying to 10 months of FY18, and a compliance ramp-up assumption affecting about 30% of FY18 collections. The estimated impact is near \$153 million in FY18, and \$202 million in FY19-FY22.

Senate Dual Referral Rules  
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}  
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House  
 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}

*Gregory V. Albrecht*  
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**Chief Economist**

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**CONTINUED EXPLANATION from page one:**

Proposed law adds sales of the following services to the sales and use tax base:

- Credit reporting services
- Debt collection services
- Insurance services
- Immovable property services
- Data processing and data storage services
- Immovable property repair and remodeling services
- Security services
- Telephone answering services
- Information services
- Personal services including massage parlors, escort services, and Turkish baths or steam baths

Proposed law defines the following media items as tangible personal property:

- Movies
- Photographs
- Books
- Any other otherwise printed matter
- Applications
- Games
- Music
- Any other audio including satellite radio service

Senate

Dual Referral Rules

House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

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

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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