

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 603** HLS 19RS 1076
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

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Dept./Agy.: Revenue		Analyst: Benjamin Vincent
Subject: Sales Tax Exemptions: Manufacturing Utilities		

TAX/SALES-USE-EXEMPT EG -\$62,000,000 GF RV See Note Page 1 of 1
 Exempts certain business utilities from state sales and use taxes

Present law exempts the sale of certain nonresidential utilities from 2.45% of the combined total 4.45% state sales and use tax.

Proposed law would exempt from the 2% levy in R.S. 47:302 the sale of certain utilities that are used predominately and directly in the actual manufacturing process by a manufacturer that has been designated as a manufacturer under the North American Industry Classification System, resulting in a tax rate of 0% on these transactions.

Effective July 1, 2019.

EXPENDITURES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total						
REVENUES	2019-20	2020-21	2021-22	2022-23	2023-24	5 -YEAR TOTAL
State Gen. Fd.	(\$62,000,000)	(\$62,000,000)	(\$62,000,000)	(\$62,000,000)	(\$62,000,000)	(\$310,000,000)
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	(\$62,000,000)	(\$62,000,000)	(\$62,000,000)	(\$62,000,000)	(\$62,000,000)	(\$310,000,000)

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Proposed law would fully exempt a significant portion of business utilities that are currently being taxed at a rate of 2%.

The magnitude of the revenue impact somewhat depends on the ability of LDR to administer and enforce rules ensuring that utilities providers credibly assess and report utility usage separately by activity.

Estimates of anticipated revenue impacts are based on data from the Bureau of Economic Analysis (BEA) and the Energy Information Administration (EIA). According to EIA data, utilities usage by manufacturers is dominated by usage in the direct manufacturing process phase, regardless of the manufacturing subsector.

LFO estimates that in a scenario where utilities usage for direct manufacturing use and non-manufacturing use were metered collectively, effectively all utilities metered would likely qualify as "predominately and directly used in the actual manufacturing process", and the resulting revenue loss would be approximately \$62 million, or \$31 mil per 1% of sales tax exempted.

In a scenario where all manufacturer utilities not used in the direct manufacturing process were fully reported and taxed, the revenue loss due to this exemption would be approximately \$54 mil, or \$27 mil per 1% of sales tax exempted.

LDR has previously reported that effective administration of the exemption with respect to separating utilities directly used in the actual manufacturing process would be problematic. LFO thus assumes the higher estimate of utilities that would be reported as exempt in the table above.

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}

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