

**LEGISLATIVE FISCAL OFFICE
Fiscal Note**



Fiscal Note On: **HB 423** HLS 23RS 108
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 16, 2023	12:50 PM	Author: NELSON
Dept./Agy.: Revenue		Analyst: Deborah Vivien
Subject: Sales Tax: Rate, Exclusions, Exemptions, Property Tax		

TAX OR INCREASE GF RV See Note Page 1 of 1
 Provides relative to state and local sales and use taxes

Current law subjects purchases of tangible personal property to a combined state sales tax rate of 4.45% through June 30, 2025, at which time these purchases will be subject to a 4% rate. Current law provides definitions regarding items excluded from the sales tax base, and provides for exemptions from the tax.

Proposed law retains the permanent 3.97% state sales tax, repeals the temporary 0.45% sales tax and enacts a new state sales tax of 0.3% in CY 24, 0.95% in CY 25, 1.6% in CY 26 and 2.25% in CY 27 and beyond. Proposed law repeals numerous exemptions, and defines some new types of digital transactions as taxable. Proposed law fully exempts business utilities at the state and local level. Proposed law increases the minimum acreage required for agricultural property tax assessments, and removes marshland from that classification.

Contingent upon voter approval of HB 414 of the 2023 Regular Session at the October 14, 2023, election.

EXPENDITURES	2023-24	2024-25	2025-26	2026-27	2027-28	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW	\$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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total		\$0	\$0	\$0	\$0	\$0

REVENUES	2023-24	2024-25	2025-26	2026-27	2027-28	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	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total						

EXPENDITURE EXPLANATION

LDR anticipates an upfront expenditure requirement of approximately \$51,000 for the purposes of computer system and tax form modification. The expenses for this bill may be absorbed in the current budget although an assessment of the cumulative effect of all measures passed during the session may warrant an additional funding request.

REVENUE EXPLANATION

Proposed law includes sales of digital goods delivered into the state into the taxable base, and defines several types of taxable digital goods, including but not limited to digital advertising, design, and broadcast services, news and general entertainment media (including but not limited to audio, video, artwork, books, and games), and purchases that temporarily or permanently enable access to utilize customized or prewritten software. The impact of the removed exemptions and newly-taxable goods and services, in isolation, would likely be a material increase in general fund revenue collections. A precise estimate of this impact is not readily available due to the complexity and number of transactions that are impacted.

Additionally, proposed law fully exempts purchases of nonresidential utilities from state and local sales and use taxes. In isolation, the impact of this provision would be to reduce state general fund collections by approximately \$180 M annually, based on the most recent available tax exemption data.

Proposed law subjects all taxable transactions to an additional state tax of 0.3% in CY 24 phasing up to 2.25% in CY 27 and beyond via a new levy, and repeals the temporary 0.45% levy, presumably around 1/1/24. The tax phase-ins occur in the middle of the fiscal years. On the current tax base, the impact of removing the temporary 0.45% levy while enacting a levy of 0.3% in mid-FY 24 will be a slight reduction in general fund revenue of about \$80 M, with a half year impact. The levy increases to 0.95% in mid-FY 25, which will increase SGF revenue by an estimated \$180 M after netting the loss in the first half of the year (0.3% rate). The temporary levy expires June 30, 2025, at which point the collections related to the new levy proposed in this bill will no longer be offset by the loss of revenue. FY 26 general fund revenue is estimated to increase by \$1.2 B in FY 26 (last year of the phase-in), \$2.0 B in FY 27 and \$2.3 B in FY 28. All of these rate estimates consider only the current tax base, not the base changes from eliminated exemptions and newly taxable services that are included in the bill as discussed above.

Proposed law increases the minimum acreage required for assessment as agricultural land from 3 acres to 10, and removes marshland as agricultural property. To the extent that existing assessments are impacted in some particular local political subdivisions, this provision in isolation would increase local tax revenue collections.

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}

Alan M. Boxberger
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