



**LEGISLATIVE FISCAL OFFICE
Fiscal Note**

Fiscal Note On: **HB 9** HLS 243ES 18
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: November 14, 2024 8:28 AM	Author: RISER
Dept./Agy.: Revenue	
Subject: Sales Tax Base Expansion: Services	Analyst: Benjamin Vincent

TAX/SALES & USE EG +\$492,000,000 RV See Note Page 1 of 1
 Provides for sales and use tax on certain services (Items #8 and 13)

Current law generally excludes services from the sales and use tax base, and subjects a number of services to sales and use taxation explicitly by listing them as taxable services in statute.

Proposed law adds a list of services to be included into the sales and use tax base, beginning with transactions made on February 1, 2025.

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	\$133,000,000	\$397,000,000	\$482,000,000	\$482,000,000	\$482,000,000	\$1,976,000,000
Agy. Self-Gen.	\$1,000,000	\$4,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$20,000,000
Ded./Other	\$1,000,000	\$4,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$20,000,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	

Annual Total

EXPENDITURE EXPLANATION

LDR reports no anticipated need for any additional positions or resources, despite certain increased demand for taxpayer assistance required by significant new taxation in this proposed bill. LFO notes that increased collections will rely on taxpayer compliance, and effectively supporting such compliance will likely require increased education and enforcement expenditures, potentially materially. Any expenditure increases would be financed via SGR out of current collections, ultimately reducing SGF revenue mechanically.

REVENUE EXPLANATION

Authoritative data specifically quantifying activities defined in this proposal does not exist, however data for activities with significant overlap is available. Various recent analyses that attempt to match language in a similar proposal with various activities as defined and measured in existing data have yielded an estimated range of \$11-\$18 billion in sales that could potentially be taxable.

Proposed law taxes purchases made by households, businesses, farms, and nonprofits. Available customer type data implies that purchases by federal, state, or local government varies by service type, but typically tends to comprise 2-13% of sales in relevant categories.

Assuming current-law tax rates, high compliance, and 7% of relevant purchases being made by untaxable government entities, these figures imply a range of collections on taxable sales of \$485-\$670 million.

Compliance levels are likely to result in lower actual collections, particularly in the early stages of the base expansion. Prior compliance estimates have implied a 30% reduction in collections. Such an assumption would reduce estimated impacts to \$340-\$470 million, while 15% noncompliance would imply \$415-\$570 million.

LFO's preferred impact estimate on potential tax collections (assuming full compliance) would be approximately \$590 million. LFO assumes a compliance deficiency impacting 30% of collections during the effective five-month FY25 period and in FY26, and a 15% compliance deficiency in FY27 through FY29. Additionally, LFO assumes a negative impact ultimately ramping up to approximately \$10 million for local franchise tax paid on gross receipts from cable service and video service. Overall estimated **revenue impacts amount to +\$135 million in the five effective months of FY 25, +\$405 million in FY 26, and +\$492 million in FY 27 and beyond.** The Dedicated and Self-generated revenue figures in the table above reflect impacts on certain minor sales tax dedications, as well as the 1% of certain collections that LDR is permitted to retain as SGR.

The expanded base will additionally serve to increase local sales tax revenues by an indeterminable amount that will vary for each taxing authority.

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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