

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **SB 12** SLS 051ES 112
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Sub. Bill For.:
 Proposed Amd.:

| | |
|---|-------------------------------|
| Date: November 7, 2005 7:00 PM | Author: THEUNISSEN |
| Dept./Agy.: Revenue | |
| Subject: Sales Tax On Nonresidential Natural Gas and Electricity | Analyst: Greg Albrecht |

TAX/SALES OR -\$32,400,000 GF RV See Note Page 1 of 1
 Phases-in a state sales tax exemption for non-residential natural gas and electricity by July 1, 2008. (1/1/06)

Current law subjects sales for nonresidential purposes of natural gas for energy, electric power, steam, and water to a 3.8% state sales tax through FY09. After that a 1% tax would apply.

Proposed law phases out the entire currently imposed 3.8% statewide sales tax on sales for nonresidential purposes of natural gas for energy and electric power beginning January 1, 2006 with elimination of the 80% of the 0.97% state tax rate and 0.03% Tourism Promotion District tax rate currently in effect through R.S. 47:331 and R.S. 51:1286. An additional 1% state tax rate reduction is provided beginning with FY07 (R.S. 47:321). An additional 1% state tax rate reduction is provided beginning with FY08 (R.S. 47:302). A final 1% state tax rate reduction is provided beginning with FY09 (R.S. 47:302).

Effective January 1, 2006.

| EXPENDITURES | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 5 -YEAR TOTAL |
|---------------------|-----------------------|------------------------|------------------------|------------------------|-----------------------|------------------------|
| State Gen. Fd. | (\$32,400,000) | (\$119,800,000) | (\$178,900,000) | (\$221,200,000) | (\$57,000,000) | (\$609,300,000) |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | (\$1,000,000) | (\$2,000,000) | (\$2,000,000) | (\$2,000,000) | \$0 | (\$7,000,000) |
| 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 | (\$33,400,000) | (\$121,800,000) | (\$180,900,000) | (\$223,200,000) | (\$57,000,000) | (\$616,300,000) |

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Sales for nonresidential energy purposes of natural gas, electric power, steam, and water have been subject to a 3.8% tax rate since July 2003. Collections from taxation of these sales (exclusive of an estimated \$4 million of collections associated with sales of water and steam) have been closely associated with the price of natural gas; \$30.8 million and \$31.3 million per dollar of annual average gas price in FY04 and FY05, respectively, even as gas prices rose by more than 21% across the two years. The \$10.00/mcf and \$8.00/mcf gas prices currently assumed in the official revenue forecasts for FY06 and FY07 imply that these sales will generate approximately \$317 million in FY06 and \$257 million in FY07, respectively. Current gas price projections for FY08 and FY09 imply expected collections of \$246 million and \$223 million in those two years. For the FY10, the projected collections are \$57 million based on the 1% tax rate in current law for that and subsequent fiscal years.

Phase out of the entire tax on these transactions, as proposed by this bill would result in approximately \$33.4 million of reduced collections in FY06, \$121.8 million in FY07, \$180.9 million in FY08, and \$223.2 million in FY09. Revenue losses in FY10 would be \$57 million, reflecting the 1% tax rate current law imposes on these sales in that and subsequent years.

This bill eliminates the 0.97% State tax rate levied by R.S. 47:331. That State levy is associated with the 0.03% Tourism Promotion District tax rate levied in R.S. 51:1286, which is subject to the same exemptions as the State levy. Thus, the revenue losses resulting from this bill are shared by the State and the Tourism Promotion District during FY06-FY09. The effect of this bill only applies to the state general fund in FY10 and beyond because only the 1% State tax levied in R.S. 47:321 is in effect after FY09.

It is possible that there will be some curtailment of nonresidential purchases of natural gas and electric power as a result of the economic disruption associated with hurricanes Katrina and Rita. To the extent that occurs and holding all other influences constant, the revenue losses resulting from this bill would be somewhat lower than estimated here.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

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