LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **SB 39** SLS 051ES 211
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Sub. Bill For.:
Proposed Amd.:

Date: November 7, 2005 8:21 PM
Author: MOUNT
Dept./Agy.: Revenue
Subject: State Sales Tax Exemption on damaged equipment
Analyst: Robert E. Hosse

TAX EXEMPTIONS OR -$3,970,000 GF RV See Note

Provides an immediate total state sales tax "exemption" until July 1, 2007 for manufacturing machinery and equipment, and their repair parts and services if they are for the repair or replacement of such machinery and equipment damaged or

Proposed legislation would exempt from state sales and use tax the purchase, lease, or rental of machinery and equipment and the repair parts or repair services for such machinery and equipment damaged or destroyed by Hurricane Katrina or Hurricane Rita when such machinery and equipment is used by a manufacturer in a plant facility predominantly and directly in the actual manufacturing for agricultural purposes or the actual manufacturing process of an item of tangible personal property for ultimate sale to another. Proposed law defines "manufacturer" consistent with current law relative to an existing phase out of state sales tax; and specfically refers to equipment lost or damaged by wind, water, fire, or criminal act as a result of conditions created by the hurricanes. Provisions of proposed law become null and void after June 30, 2007. Effective upon governor's signature.

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	$0	$0	$0	$0	$0	**$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.	($3,970,000)	($7,940,000)	$0	$0	$0	**($11,910,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($30,000)	($60,000)	$0	$0	$0	**($90,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($4,000,000)**	**($8,000,000)**	**$0**	**$0**	**$0**	**($12,000,000)**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Proposed legislation is anticipated to result in a decrease in State General Fund revenue (SGF and Tourism District combined) of approximately $4 million in FY 06 and approximately $8 million in FY 07.

The Legislative Fiscal Office currently estimates manufacturing machinery and equipment eligible for the state sales and use phase-out to be approximately $1.953 billion in FY06. According to information from the U.S. Census Bureau, approximately 35% of machinery and equipment capital investment occurs in the parishes most likely to have been directly impacted by the hurricanes and likely to have sustained some damage. The Legislative Fiscal Office has no definitive damage estimates of the value of this machinery and equipment which may have sustained damage due to the hurricanes; however, a conservative upper estimate of 30% is used to establish a ceiling for estimate purposes. The LFO has also assumed an average 10 year lifespan on the machinery and equipment subject to the state sales tax phase-out. Based upon an estimated decrease in the baseline estimate of the machinery and equipment investment stream due in part to the hurricanes coupled with a phased in reinvestment of damaged machinery and equipment, a net decrease of $4.8 million in SGF is calculated (baseline exemption phase out cost is decreased approximately $5.1 million and reinvestment of damaged machinery and equipment is factored in FY06 at 15% and taxable at 81% for an increase in SGF loss of $9.9 million). FY07 impact is calculated to result in a $10 million SGF reduction (baseline exemption phase out cost is decreased approximately $11.3 million and reinvestment of damaged machinery and equipment is factored in FY07 at 40% and taxable at 65% for an increase in SGF loss of $21.3 million). The above net calculation represents a probable upper threshold of impact. The LFO believes that the actual loss of revenue against the baseline estimate is likely to be as much as 20% less than calculated and therefore the estimated loss is $4 million in FY06 and $8 million in FY07.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $500,000 Annual Fiscal Cost		☐ 6.8(F) >= $500,000 Annual Fiscal Cost
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease

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