

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **SB 54** SLS 051ES 111
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Sub. Bill For.:
 Proposed Amd.:

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Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Limit Sales Tax On Natural Gas	

TAX/SALES OR -\$49,000,000 GF RV See Note Page 1 of 1
 Provides for a state sales and use tax limitation on the sales price and cost price of natural gas.

Current law imposes 3.8% state sales and use tax on natural gas purchased for nonresidential energy use through June 30, 2009. After that date a 1% tax rate is imposed on these purchases.

Proposed law limits the sales price and the cost price of natural gas to amounts up to \$6.20/MMBtu. This effectively eliminates state sales tax on the value of natural gas in excess of \$6.20/MMBtu.

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.	(\$49,000,000)	(\$43,000,000)	(\$31,000,000)	(\$9,000,000)	\$0	(\$132,000,000)
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	(\$49,000,000)	(\$43,000,000)	(\$31,000,000)	(\$9,000,000)	\$0	(\$132,000,000)

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

The LSU Center For Energy Studies (CES) provided an analysis that allows some estimate of the fiscal impact of this bill. The CES estimated the volumes of natural gas used for energy purposes in 17 industrial categories. These volumes were projected into future periods and multiplied by projected prices (FY06: \$10.00/mcf, FY07: \$8.00/mcf, FY08: \$7.53/mcf, FY09: \$6.75/mcf, FY10: \$6.40/mcf) without the value limitation of this bill to determine the estimated total expenditures subject to state sales tax. This same calculation is done with the value limitation of this bill to determine the estimated total expenditures subject to state sales tax under this bill. Both of these sales-taxable expenditure estimates are multiplied by the 3.8% sales tax in effect. The difference in these two sales tax estimates is the effect of this bill.

The bill expresses the price limitation in terms of MMBtu units while the CES analysis is provided in terms of Mcf units. Thus, the \$6.20/MMBtu price limitation in the bill translates to \$6.44/mcf in the CES analysis. Unless changed by subsequent legislation, current law will impose only a 1% tax on these transactions beginning July 1, 2009. In addition, current price projections are of a price level that actually is less than the limitation price in the bill. Thus, there is no effect from the bill in that last year of the fiscal note under current price projections.

These estimates may understate the revenue losses resulting from this bill because the analysis is based on industrial users of gas only, while the bill provides a general limitation of the value of all natural gas for purposes of state sales taxation. Some amount of natural gas sold for energy purposes is purchased by other nonresidential entities, for example commercial entities for heating or utility companies for electric power generation. These transactions would also, presumably, receive the benefit of the price limitation for sales taxation.

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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