

**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**



Fiscal Note On: **HB 42** HLS 051ES 344  
 Bill Text Version: **REENGROSSED**  
 Opp. Chamb. Action:  
 Sub. Bill For.:  
 Proposed Amd.:

<b>Date:</b> November 17, 2005 10:26 AM	<b>Author:</b> MONTGOMERY
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Robert E. Hosse
<b>Subject:</b> Sales Tax Holiday December 9th thru 11th	

TAX/SALES-USE-EXEMPT RE -\$23,000,000 GF RV See Note Page 1 of 2  
 Provides that the state sales or use tax shall not apply to consumer purchases from certain dealers of tangible personal property for non-business use on a certain date (Item #7)

Proposed law would provide for a state sales tax holiday December 9th through 11th, 2005 for consumer purchases of tangible personal property. Proposed law would also provide for a state sales tax holiday for consumer purchases of tangible personal property for non-business use that occur on the first weekend of August beginning in 2006 and thereafter. Proposed law defines "Consumer purchases" as items of tangible personal property, other than vehicles subject to license and title, costing \$2,500 or less per unit. Effective upon governor's signature.

<b>EXPENDITURES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>REVENUES</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	(\$22,827,500)	(\$6,127,695)	(\$6,127,695)	(\$6,127,695)	(\$6,127,695)	<b>(\$47,338,280)</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	(\$172,500)	(\$46,305)	(\$46,305)	(\$46,305)	(\$46,305)	<b>(\$357,720)</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b>\$0</b>
<b>Annual Total</b>	<b>(\$23,000,000)</b>	<b>(\$6,174,000)</b>	<b>(\$6,174,000)</b>	<b>(\$6,174,000)</b>	<b>(\$6,174,000)</b>	<b>(\$47,696,000)</b>

**EXPENDITURE EXPLANATION**

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

**REVENUE EXPLANATION**

Proposed legislation is estimated to result in a decrease in State General Fund revenue (SGF at 3.97% and Tourism District at .03%) of approximately \$23 million in FY06.

Sales Tax Holiday December 9th through 11th, 2005

According to the Department of Revenue, general sales tax collections in December 2004 totaled \$184,177,000 or an average daily amount of \$5,941,200. The department further compared census data to the department's collections data, which implied that approximately 40% of the daily sales tax collections were attributable to subsectors which would be impacted by this legislation such as furniture and home furnishings, electronics and appliances, building materials and garden equipment, health and personal care, clothing and accessories, sporting goods, books, music store merchandise, general merchandise, and non-store retailers. The department assumed that 85% of the items purchased in these subsectors have a selling price of \$2,500 or less, normal sales activity doubled on the sales tax holiday, the percentage of non-business retail sales increased to 75% for the sales tax holiday, and that taxpayers taking advantage of the holiday would primarily purchase items within the retail subsectors identified. Based on this information and assumptions the department estimates that the proposed legislation would result in a State General Fund revenue loss of approximately \$3 million for a single day. The calculation is made as follows: (((average daily affected sales of \$56,742,000 X 2) X .75 nonbusiness retail sales) X .85 for percentage under \$2,500) X .04). This calculation infers expenditures equivalent to 2 shopping days occurring if the tax holiday is one day. Expanding the holiday to 3 days, the LFO assumes that the equivalent of 5 shopping days will occur in the 3 day period, or approximately \$1.45 million/day X 5 days = \$7.2 million.

In estimating the the impact of the sales tax holiday for nonbusiness consumers the Department of Revenue attributed approximately \$2.3 million of the average daily general sales tax collection in December 2004 (\$5.9 million). The Department reviewed line item reports which suggest that services and rentals would be approximately \$1.1 million, leaving approximately \$2.5 million in sales tax estimated to be paid by businesses on these purchases. The Department further estimates 80% of the \$2.5 million was for consumable items with a value of \$2,500 or less, which would account for approximately \$2 million of the daily total. Expanding the holiday to three days, the department (Continued on page 2)

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

**Gregory V. Albrecht**  
**Chief Economist**

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CONTINUED EXPLANATION from page one:

CONTINUED REVENUE EXPLANATION from page one:

estimates that state general fund revenue would decrease by a minimum of \$15 million to \$16 million in FY06. This estimate is based on the following assumptions: businesses will more likely plan routine or maintenance type purchases around a sales tax holiday, businesses have the ability to warehouse or store items more readily than a non-business consumer, and businesses have the ability to move up to 5 to 10 or more days average purchases into a specified time period. The impact is calculated as follows: (\$2 million X 8 days (average) = \$16 million.

Sales Tax Holiday on the first weekend of August

The Department of Revenue reviewed net collection data for the months of July, August, and September in 2004. That data suggested that "back to school" purchases were more likely made in July, which is consistent with current school starting dates that actually begin in early August. The average collections for July 2004 were \$6,095,000. The average daily collections for August 2004 were \$5,802,000. When comparing census data to department collection data for August 2004, it appears that approximately 40% of the daily sales tax collections were attributable to the subsectors which would be impacted by this legislation such as furniture and home furnishings, electronics and appliances, building materials and garden equipment, health and personal care, clothing and accessories, sporting goods, books, music store merchandise, general merchandise, and non-store retailers. The department also noted that the decline from July 2004 collections to September 2004 collections was approximately 7%, and has assumed that certain purchases were pushed to July in anticipation of school starting, and that a like percent could be pushed from July to a tax free holiday in August. As the holiday would include items other than "back to school" type items such as clothes, shoes and backpacks, the department assumes that consumers would plan larger purchases around this time period as well. Based on the above information and the following assumptions, it is estimated that the sales tax holiday in August would decrease state general fund revenues by approximately \$6.174 million in FY07 and subsequent years: 85% of the items purchased in the retail sale subsectors have a selling price of \$2,500 or less, the 2 day holiday would encompass the equivalent of 3 days of average consumer purchases, back to school items would be purchased during the holiday, and that taxpayers taking advantage of the sales tax holiday would primarily purchase items within the retail subsectors identified. The impact is calculated as follows: (Average daily collections in August of \$5.8 million X 40% consumer purchases in identified subsectors X .85 for the percent of items valued at \$2,500 or less) + (7% increase to factor for assumed increase in back to school purchases) = \$2,058,000 for average daily collections; Assuming 3 days of purchases in a 2 day period (\$2,058,000 X 3 = \$6,174,000).

Senate

Dual Referral Rules

House

[ ] 13.5.1 >= \$500,000 Annual Fiscal Cost

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

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

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

Handwritten signature of Gregory V. Albrecht
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