LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 40** HLS 051ES 192

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Sub. Bill For.:

Proposed Amd.:

Date: November 29, 2005 12:37 PM

Author: HAMMETT

Dept./Agy.: Revenue

Subject: Sales Tax On Nonresidential Natural Gas and Electricity

Analyst: Greg Albrecht

TAX/SALES-USE, STATE EN -$20,834,000 GF RV See Note

Caps the state sales tax on natural gas and electricity costs to certain industries (Item #17)

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 reduces the tax on sales for nonresidential purposes of natural gas for energy and electric power to a 3.3% rate for the period January 1, 2006 through June 30, 2009. After that these sales would be subject to the 1% tax provided in current law.
Proposed law completely eliminates the 3.8% state sales tax on purchases of electric power by the paper or wood products manufacturing facilities for the period July 1, 2006 through December 31, 2008 (FY07, FY08, and one-half of FY09). In addition, for the same period, these facilities would not pay the state 3.8% sales tax on the value of natural gas for energy purposes that exceeds $6.20 per MMBtu. The full 3.8% tax would apply to value below that level.
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	$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.	($20,834,000)	($39,188,000)	($36,708,000)	($31,152,000)	$0	**($127,882,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($166,000)	($312,000)	($292,000)	($248,000)	$0	**($1,018,000)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($21,000,000)**	**($39,500,000)**	**($37,000,000)**	**($31,400,000)**	**$0**	**($128,900,000)**

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.

A 3.3% tax rate on these transactions would result in approximately $21 million of reduced collections in the second half of FY06, and $34 million of reduced collections through all of FY07. Revenue losses in FY08 would be some $32 million, and in FY09 $29 million.

The bill provides additional tax reductions for paper and wood products manufacturing facilities. Based on estimates of natural gas use and electric power use for major industries provided by the Center for Energy Studies at LSU, these provisions would result in additional revenue losses of $1.6 million in FY07, $1.1 million in FY08, and $200,000 for the first half of FY09 associated with the natural gas price cap, and additional revenue losses of $3.9 million in FY07 and FY08, and $2 million for the first half of FY09 associated with the complete tax elimination of electric power. These estimates of additional revenue loss are net of the tax reductions provided these industries by the 0.5% tax rate reduction provided to all nonresidential purchasers by the bill. Total additional revenue losses attributable to the additional tax reductions provided the paper and wood products industries are $5.5 million in FY07, $5 million in FY08, and $2.4 million in FY09.

The bill reduces by 30% the 0.97% state tax rate levied in R.S. 47:331 to these sales for all nonresidential purchasers. It also caps the value of natural gas subject to this levy for certain industries, and fully eliminates the levy on electric power for those certain industries. That state levy is associated with the 0.03% Tourism Promotion District tax rate imposed in R.S. 51:1286, which is subject to the same exemptions and suspensions of exemptions as the State levy in R.S. 47:331. Thus, the revenue losses resulting from this bill are shared by the State and the Tourism Promotion District.

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

H. Gordon Monk

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Legislative Fiscal Officer