

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 104** HLS 161ES 246  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.: **w/ PROP HSE COMM AMD**  
 Sub. Bill For.:

<b>Date:</b> February 24, 2016 12:18 PM	<b>Author:</b> STOKES
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Deborah Vivien
<b>Subject:</b> Increases sales tax by 0.5% and removes some exemptions	

TAX/SALES-USE, STATE OR +\$460,900,000 GF RV See Note Page 1 of 2  
 Provides for the tax base for the state sales and use tax (Items #9 and 36)

Current law imposes a 4% state sales and use tax on sales of tangible personal property and certain services with specific exemptions and exclusions. A statutory dedication of 0.4% of remittances with \$2M to the Marketing Fund and the remainder to the LA Economic Development (LED) Fund are required. Business utilities are taxed at 1% for 2015-16 fiscal year.

Proposed law retains current law and expands the sales tax base and increases the rate on the entire tax base by 0.5% to 4.5% (2% levy goes to 2.5%). Previously exempt transactions include business utilities for non-manufacturing sectors, sales tax holidays, paper and wood manufacturer consumables, among many other current exemptions and exclusions. The rate increase is in effect from 4/1/16 to 6/30/21, at which time the the rate is lowered to 3.5% (2.5% levy goes to 1.5%). The bill also authorizes a rebate for Manufacturing Machinery and Equipment (MM&E). Effective upon signature for taxable periods beginning April 1, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

  

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$460,900,000	\$460,900,000	\$460,900,000	\$460,900,000	\$460,900,000	\$2,304,500,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$6,600,000	\$6,600,000	\$6,600,000	\$6,600,000	\$6,600,000	\$33,000,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

The Department of Revenue indicates that any expense related to this bill will be absorbed in the current budget. However, implementation will require a substantial effort to change forms, systems and provide customer service for such an extensive change to a multitude of items that were not previously taxed and others with a tax rate increase. Costs and human resources required for implementation could be significant.

**REVENUE EXPLANATION**

With sales tax collections currently showing little growth over last year, FY 15 actual figures will serve as an estimate for an annual impact to state revenues with respect to currently taxed transactions. The Department of Revenue data in the Tax Exemption Budget is used for currently exempt transactions. These data sources suggest that state revenue will increase in FY17 due to these major factors (\$ millions):

	Annual	FY 16*
0.5% on Current Taxable Base	395.3	98.8
4.5% on New Taxable Base	73.1	16.9
0.5% on Hotels	4.7	1.2
<u>GROSS Collections</u>	<u>473.1</u>	<u>116.9</u>
less: Hotel Tax Dedication to Locals	(4.7)	(1.2)
less: Dedication of 0.4% to LED Fund	(1.9)	(0.5)
<u>NET Collections</u>	<u>460.9</u>	<u>115.2</u>

1% on New Taxable Base (\$ Millions)

	Annual	FY 16*
MM&E	0.0	0.0
Business Utilities	67.5	16.9
Certain Trucks and Trailers	0.0	0.0
Sales Tax Holidays	5.6	0.0
Other (Assuming 10%)	0.0	0.0 (see page two)
1% Base	0.0	0.0 (see page two)
<u>TOTAL</u>	<u>73.1</u>	<u>16.9</u>

(CONTINUED)

Senate <u>Dual Referral Rules</u> <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}	House <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}	 <b>Gregory V. Albrecht</b> Chief Economist
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**CONTINUED EXPLANATION from page one:**

**REVENUE SUMMARY**  
(CONTINUED from Page 1)

The bill changes the base by eliminating certain exclusions and exemptions but also provides rebates for sales of manufacturing machinery and equipment, which has no fiscal impact. There could be significant funds in the "Other" category and the 1% Base depending on which exemptions have been eliminated and which remain. The extensive list of exemptions within those categories will require further analysis to allow any degree of confidence in budgeting revenue from those changes. Time constraints do not allow a detailed analysis, but it is possible that a material amount of additional revenue could be collected if many of these exemptions are now taxed at 4.5%.

\*These estimates imply a full quarter of unprotested collections based on an annualized amount. Actual collections will be lower, especially in the first months of implementation as compliance improves. The category of "Other" sales is assumed at zero for the first three months. The first FY 16 collections affected by this bill will be due May 20. Any error inherent in the base figures are also carried into this estimate, which increases uncertainty.

The bill impacts many local exemptions and exclusions, presumably increasing the taxable base. However, time constraints do not allow an analysis of local impacts.

All of the figures in the note are preliminary due to the expedited analysis of an extensive change to legislation. Further analysis could materially alter this estimate.

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

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