

LEGISLATIVE FISCAL OFFICE
Fiscal Note



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

Date: February 29, 2016 11:45 AM	Author: STOKES
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: Increases sales tax by 0.5% and removes some exemptions	

TAX/SALES-USE, STATE EGF +\$573,700,000 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 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%). The bill imposes a 4.5% tax on installations and possibly 0.5% on telecommunications. Previously exempt transactions include business utilities for non-manufacturing sectors, sales tax holidays, and 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 appears to authorize 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
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$573,700,000	\$573,700,000	\$573,700,000	\$573,700,000	\$573,700,000	\$2,868,500,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$7,300,000	\$7,300,000	\$7,300,000	\$7,300,000	\$7,300,000	\$36,500,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
Annual Total						

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	186.4	19.8
0.5% on Hotels	4.7	1.4
Vendor's Compensation	(5.4)	(1.4)
GROSS Collections	581.0	118.6
less: Hotel Tax Dedication to Locals	(4.7)	(1.4)
less: Dedication of 0.4% to LED Fund	(2.6)	(0.5)
NET Collections	573.7	116.7

4.5% on New Taxable Base (\$ Millions)

	Annual	FY 16*
MM&E (rebate)	0.0	0.0
Business Utilities (non-manu)	67.5	16.9
Certain Trucks and Trailers	0.0	0.0
Vehicle Rentals	0.0	0.0
Used Manufactured Homes	0.0	0.0
Sales Tax Holidays	5.6	0.0
Tax Free Shopping	0.0	0.0
Other (Assuming 10%)	101.6	0.0
1% Base	11.7	2.9
TOTAL	186.4	19.8

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| Senate | <u>Dual Referral Rules</u> | House |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} |

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CONTINUED EXPLANATION from page one:

REVENUE SUMMARY

(CONTINUED from Page 1)

The engrossed bill with proposed floor amendments is complicated and occasionally inconsistent, according to analysis by the Department of Revenue. Thus, a significant amount of uncertainty persists as to the actual contents of the bill. The tax base appears to be expanded by the taxation of business utilities for all but manufacturers, and the elimination of certain exclusions and exemptions in the category of Other and the 1% Base, and the elimination of all three sales tax holidays.

The bill authorizes rebates for sales of manufacturing machinery and equipment (MM&E), which has no fiscal impact relative to current law. However, the MM&E provisions appear to repeal the use tax but impose sales tax, then provide for a rebate for most of the MM&E exemptions. Presumably, the bill intends to treat sales and use taxation of MM&E transactions the same.

Business utilities are exempt for manufacturers but taxable for all other industry sectors. However, boiler fuel, which is currently taxed at 2% (then only 1% after FY16) appears to be no longer taxable in the bill. No estimate is available for boiler fuel taxable value.

The bill taxes installation services which have not been taxable for at least 20 years. Reliable data is not available to determine an impact though it is expected to generate a large amount of revenue. According to the Department of Revenue, the bill also removes a provision related to immovable property which may make installations on immovable property taxable, in contrast to court rulings, though this is not clear.

Telecommunications taxation is also not certain but appears to be taxed with an additional 0.5%. If so, this could add to the revenue generated by the bill but is not included in the estimates due to uncertainty.

LOCAL

The bill impacts many local exemptions and exclusions, presumably increasing the taxable base. Locals appear to be authorized to tax items purchased with Medicare. However, time constraints do not allow a comprehensive 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 the estimate.

*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, as these transactions will experience the most compliance and enforcement ramp-up. 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.

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}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

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Handwritten signature of John D. Carpenter.

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