

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 220** HLS 17RS 781
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 17, 2017 4:34 PM	Author: MAGEE
Dept./Agy.: REVENUE	Analyst: Benjamin Vincent
Subject: Sales & Use Tax: Rate and Base Adjustment	

TAX/SALES-USE, ST-EXEMPT OR DECREASE GF RV See Note Page 1 of 1
 Repeals 2.97% of the combined 5% state sales and use tax rate, and makes permanent some suspensions of exemptions and exclusions for the remaining 2.03%.

Current law imposes a 5% combined state sales and use tax rate, and establishes several exemptions and exclusions to the tax. Additionally, it provides for a portion of the sales and use tax revenues to be dedicated to certain local governmental purposes.

Proposed law repeals 2.97% of the state sales and use tax, and repeals all dedications associated with the taxes being repealed. It also makes permanent the suspensions of exemptions and exclusions associated with the remaining levy.

Effective on July 1, 2017.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	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	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd. (\$2,600,000,000)	(\$1,500,000,000)	(\$1,500,000,000)	(\$1,500,000,000)	(\$1,500,000,000)	(\$1,600,000,000)	(\$8,700,000,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other (\$75,000,000)	(\$45,000,000)	(\$45,000,000)	(\$45,000,000)	(\$45,000,000)	(\$45,000,000)	(\$255,000,000)
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 (\$2,675,000,000)	(\$1,545,000,000)	(\$1,545,000,000)	(\$1,545,000,000)	(\$1,545,000,000)	(\$1,645,000,000)	(\$8,955,000,000)

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Proposed law repeals 2.97% of the current 5% state sales tax. It does not repeal the 0.03% tax imposed for the LA Tourism Promotion District (LTPD). Proposed law also indefinitely suspends certain exemptions whose current suspensions are scheduled to sunset July 1, 2018 under current law, but retains a lengthy list of exemptions. It also repeals several dedications associated with the tax rates being repealed.

Utilizing current REC sales tax forecasts and the primary statewide tax rates associated with those forecasts, LA Dept. of Revenue (LDR) estimates that for FY18, the reduced general and motor vehicle sales tax rate proposed by the bill will result in a state revenue loss of some \$2.6B relative to current law. As current law provides for a restoration of exemptions and a 4% primary sales tax rate for FY19 and beyond, the bill's rate reduction results in a smaller loss of some \$1.7B for FY19 and subsequent years. The bill also indefinitely suspends certain exemptions that will be taxed at the reduced rate of 2%, resulting in tax receipts estimated at \$196M in FY19 and beyond, mitigating the base revenue loss somewhat; bringing projected revenue losses to \$1.5B per year for FY19-FY22.

Additionally, numerous funds receive dedications from the state sales taxes being repealed, including dedications to local entities of revenues from hotel room rentals, the economic development Marketing Fund, Telephone Property Relief Fund, Tax Increment Financing Districts, and the Transportation Trust Fund aviation fuels. As a group, these funds appear to lose roughly \$75 million in FY18 and \$45 million per year thereafter due to the bill's rate reduction. Some of these monies are contained within state general fund sales tax forecast, while some are not. These are depicted as a group total in the table above.

LDR notes that the bill may cause confusion regarding the applicable sales tax rate with regard to the Tourism Promotion District, as it maintains the District's .03% tax rate but repeals the statute containing the exemptions and exemption suspensions that apply to the District's levy. In addition, it will be difficult for the department to implement the changes in the bill by the July 1, 2017 effective date.

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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