



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 655** HLS 17RS 1337
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: May 5, 2017 3:58 PM	Author: REYNOLDS
Dept./Agy.: REVENUE	Analyst: Benjamin Vincent
Subject: Sales Tax: Services	

TAX/SALES & USE OR +\$219,800,000 GF RV See Note Page 1 of 2
 Adds sales of certain services to the sales and use tax base, and defines certain media as tangible personal property for the purposes of sales and use tax.
Current law imposes state sales and use taxes on tangible personal property at a combined rate of 5% until July 1, 2018, at which time a 4% rate will be imposed.
Proposed law adds sales of several services to the sales and use tax base, and expands the definition of tangible personal property to include several types of media.
 Effective September 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	\$0	\$0	\$0	\$0	\$0	\$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.	\$219,800,000	\$251,200,000	\$251,200,000	\$251,200,000	\$251,200,000	\$1,224,600,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Annual Total						

EXPENDITURE EXPLANATION
 The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (in this case \$51,000). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

REVENUE EXPLANATION
 Proposed law adds sales of certain services to the state sales and use tax base, and defines several media items as tangible personal property for the purposes of sales and use tax. (A list of these services and media items is included on page 2.)

Significant caution should be taken when considering the estimated revenue impacts of proposed law. Transaction data capable of providing anything better than a rough estimate for either provision is not available. Additionally, significant collections challenges exist, particularly with certain digital media. It is possible that actual tax collections would be materially smaller than implied by the estimated tax base.

Some prior investigation into expanding the base to services has been conducted recently. An estimate of a provision similar to proposed law, based on Census Bureau data compiled by the Revenue Dept (LDR), suggests that the provision would yield \$269 million, using the 4% rate provided by current law for FY19. Another estimate, based off of Louisiana sales and trade flow data contained in a state input-output model (IMPLAN), suggests the revenue gain would be \$241 million. Still another estimate, based on projections from a recent paper by economists at Tulane University, suggests an impact of \$251 million. This note assumes an estimated impact of the middle estimate of \$251 million for the services provision.

The provision that defines certain media as tangible personal property is projected to have a significantly smaller impact. Current law already imposes a tax on printed media, and provides some exemptions. Additionally, LDR notes in Revenue Ruling 10-001 that purchases of digital media, including downloads, and one-time or subscription access to software, applications, and entertainment media are already subject to sales and use tax. LDR also notes that only some of these transactions are currently taxed. The challenge of effectively collecting taxes on these already-taxable transactions is not likely to be mitigated by proposed law. Thus, the impact of the media provisions will likely be marginal.

The revenue impacts above reflect a 4% tax rate for FY19-FY22, a 5% rate for FY18, and a compliance ramp-up assumption affecting about 30% of FY18 collections. The estimated impact is near \$220 million in FY18, and \$251 million in FY19-FY22.

<p><u>Senate</u></p> <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}	<p><u>House</u></p> <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}	<p> Gregory V. Albrecht Chief Economist</p>
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CONTINUED EXPLANATION from page one:

Proposed law adds sales of the following services to the sales and use tax base:

- Credit reporting services
- Debt collection services
- Insurance services
- Immovable property services
- Data processing and data storage services
- Immovable property repair and remodeling services
- Security services
- Telephone answering services
- Audio and video services including cable and satellite
- Streaming or downloading services for digital goods
- Information services
- Personal services including massage parlors, escort services, and Turkish baths or steam baths

Proposed law defines the following media items as tangible personal property:

- Video
- Photographs
- Books
- Any other otherwise printed matter
- Applications
- Games
- Music
- Any other audio including satellite radio service

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}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Gregory V. Albrecht
Chief Economist