LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 603** HLS 19RS 1076
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: May 21, 2019 9:48 AM
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Dept./Agy.: Revenue
Subject: Sales Tax Exemptions: Manufacturing Utilities
Analyst: Benjamin Vincent

TAX/SALES-USE-EXEMPT RE -$62,000,000 GF RV See Note
Exempts certain business utilities from state sales and use taxes

Present law exempts the sale of certain nonresidential utilities from 2.45% of the combined total 4.45% state sales tax.

Proposed law would implement an exemption from the 2% levy in R.S. 47:302 for the sale of certain utilities that are used by a NAICS-classified manufacturer predominately and directly in the actual manufacturing process.

Proposed law would implement a partial (1%) exemption for six months of FY20 and six months of FY21. In FY22, the full exemption from the 2% tax levy would be applied for the entire year and all years following, resulting in a tax rate of 0% on these transactions.

Effective July 1, 2019.

EXPENDITURES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 -YEAR TOTAL**
State Gen. Fd.	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	
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						

REVENUES	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**5 -YEAR TOTAL**
State Gen. Fd.	($47,000,000)	($47,000,000)	($62,000,000)	($62,000,000)	($62,000,000)	**($280,000,000)**
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	**($47,000,000)**	**($47,000,000)**	**($62,000,000)**	**($62,000,000)**	**($62,000,000)**	**($280,000,000)**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Proposed law would exempt a significant portion of business utilities that are currently being taxed at a rate of 2%. The exemption would be applied partially for certain periods in FY20 and FY21.

The timing of the full exemption and partial exemption for these purchases would apply as follows:
-Fully exempt for the first six months of FY20 (2nd half of 2019); effective rate for FY20 of 0.5%
-Partially exempt for the final six months of FY20 (1st half of 2020 at 1%), and for the first six months of FY21 (2nd half of 2020 at 0%); effective rate for FY21 of 0.5%
-Purchases are fully exempt from the 2% levy for the final six months of FY21 (1st half of 2021), and all periods following; effective rate for FY22 and beyond of 0%

The magnitude of the revenue impact somewhat depends on the ability of LDR to administer and enforce rules ensuring that utilities providers credibly assess and report utility usage separately by activity.

Estimates of anticipated revenue impacts are based on data from the Bureau of Economic Analysis (BEA) and the Energy Information Administration (EIA). According to EIA data, utilities usage by manufacturers is dominated by usage in the direct manufacturing process phase, regardless of the manufacturing subsector.

LFO estimates that in a scenario where utilities usage for direct manufacturing use and non-manufacturing use were metered collectively, effectively all utilities metered would likely qualify as "predominately and directly used in the actual manufacturing process", and the resulting revenue loss of the full exemption would be approximately $62 million, or $31 mil per 1% of sales tax exempted.

In a scenario where all manufacturer utilities not used in the direct manufacturing process were fully reported and taxed, the revenue loss due to the full exemption would be approximately $54 mil, or $27 mil per 1% of sales tax exempted. LDR has previously reported that effective administration of the exemption with respect to separating utilities directly used in the actual manufacturing process would be problematic. LFO thus assumes the higher estimate of utilities that would be reported as exempt in the table above.

Senate Dual Referral Rules House

☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}
☐ 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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