

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 28** SLS 202ES 37
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: October 4, 2020 6:20 PM	Author: CATHEY
Dept./Agy.: Revenue	Analyst: Benjamin Vincent
Subject: Sales Tax Exemption: Broadband Equipment	

TAX/TAXATION OR DECREASE GF RV See Note Page 1 of 2
 Exempts purchases of certain equipment by broadband providers from sales and use tax. (gov sig) (Item #39)

Current law subjects purchases of tangible personal property at a state tax rate of 4.45% via four major levies through June 30, 2025. Current law provides that certain purchases of equipment by broadband providers are considered taxable. Current law provides a 50% rebate on state and local sales tax for taxes paid on certain purchases of fiber-optic cable by broadband providers.

Proposed law fully exempts a broad category of purchases of tangible personal property made by broadband providers from the state sales and use tax for the second half of FY21, and all years following.

Effective January 1, 2021.

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	\$51,000	\$0	\$0	\$0	\$0	\$51,000
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	\$51,000	\$0	\$0	\$0	\$0	\$51,000

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
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						

EXPENDITURE EXPLANATION

The LA Dept of Revenue (LDR) anticipates minor initial programming, testing, and system development costs in the rapid implementation of a new exemption and revision of affected tax returns.

REVENUE EXPLANATION

Proposed law would fully exempt a broad category of equipment purchases by broadband providers or affiliates of broadband providers for half of FY21, and for all years following. The items exempted would include purchases of electricity. A more detailed list of items exempted is included on page 2.

Official data on these particular purchases is not available, making an estimate of the typical level of this activity subject to significant uncertainty. For the purpose of understanding the likely order of magnitude of the revenue impact of proposed law, a rough estimate of typical impacted spending is constructed, by utilizing industry-level Intermediate Use data and industry-level state Gross Domestic Product data from the Bureau of Economic Analysis.

These data imply approximately \$775 million statewide spend on impacted types of tangible personal property for a typical year. At a state rate of 4.45%, exempting this level of taxable spending would result in an annual revenue impact of approximately \$35 million.

Additionally, the Federal Communications Commission (FCC) Rural Digital Opportunity Fund is anticipated to begin issuing awards to fund or subsidize the construction of certain rural broadband networks by mid-FY21, which implies that FY21 and subsequent years are likely to see significantly elevated levels of these purchases. The magnitude of this effect will depend on the extent of FCC awards issued within the state, and the extent and pace of the construction of associated infrastructure. LFO is unable to project whether the magnitude of this effect will be large enough to offset the impact of the exemption applying for only half of FY21.

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}

Christopher A. Keaton
Legislative Fiscal Officer

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CONTINUED EXPLANATION from page one:

List of purchases exempted by proposed law (not exhaustive):

LDR notes that broadband can be provided over several different platforms, including Digital Subscriber Line (DSL), cable modem, fiber, wireless, and satellite.

Proposed law exempts broadband provider purchases of electricity, converters, modem and Wi-Fi equipment, monitoring equipment, fiber optic cable and coaxial cable, conduit, distribution plant, customer connection equipment, telecommunications radio, routing and switching equipment, prewritten computer software, equipment enclosures which are above and below ground, towers, poles & mounts, transmitters, power equipment, diagnostic equipment, storage devices, services, multiplexers, amplifiers, antennas, and other equipment.

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