LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 43** HLS 21RS 423

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 26, 2021 3:12 PM **Author:** DEVILLIER

Dept./Agy.: Revenue

Subject: Exemption: Manufacturing Business Utilities **Analyst:** Benjamin Vincent

TAX/SALES-USE-EXEMPT OR -$69,200,000 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, resulting in a tax rate of 0% on these transactions.

Effective July 1, 2021.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	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	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	($69,200,000)	($69,200,000)	($69,200,000)	($69,200,000)	$0	**($276,800,000)**
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	**($69,200,000)**	**($69,200,000)**	**($69,200,000)**	**($69,200,000)**	**$0**	**($276,800,000)**

EXPENDITURE EXPLANATION

LDR reports that modifying the current set of suspended exemptions will require expenditures for tax return form redesign, and for computer system modification, development, and testing; estimated at approximately $26,000 of staff time.

REVENUE EXPLANATION

Proposed law would exempt a significant portion of business utilities that are currently being taxed at a rate of 2% through June 30, 2025, at which time present law already provides that these purchases will be exempt.

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 $69.2 million, or $34.6 million per 1% of sales tax exempted.

In a scenario where all manufacturer utilities not used in the direct manufacturing process were separately metered, reported, and taxed, the revenue loss due to the full exemption would be approximately $60.2 mil, or $30.1 mil per 1% of sales tax exempted.

The magnitude of the revenue impact depends on the ability of LDR to administer and enforce rules ensuring that utility providers precisely assess and report utility usage separately by activity. LDR has previously reported that effective administration 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

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 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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