LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 514** HLS 21RS 586
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ #2 SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 3, 2021 11:56 AM
Author: MAGEE
Dept./Agy.: Revenue
Subject: Sales Tax: Bus Utilities, TTF Ded, Marijuana, 0.45% Levy
Analyst: Benjamin Vincent

TAX/SALES & USE RE2 DECREASE GF RV See Note

Levies a state tax on raw or crude marijuana recommended for therapeutic use and provides for the disposition of the collections of the tax

Proposed law extends the effectiveness of the temporary 0.45% levy in R.S. 47:321.1 beyond FY25, and beginning in FY26, dedicates the avails of the levy to the Construction Subfund (CSF).
Proposed law increases the partial exemption on its definition of manufacturing utilities in FY23, provides an annually-increasing partial exclusion to the remaining tax on those utilities, and dedicates the avails of the remaining tax on manufacturing utilities to the CSF. Proposed law specifies allowable expenditures of CSF monies.
Proposed law additionally removes the state sales tax exclusion on sales of raw or crude marijuana recommended for therapeutic use, and dedicates 50% of the avails to the CSF, 25% to the Louisiana Early Childhood Education Fund, and 25% to the Louisiana Public Defender Board.
Proposed law is effective contingent upon the enactment and effectiveness of House Bill 391 of the 2021 Regular Session, which legalizes the sale of marijuana recommended for therapeutic use, and has an effective date of January 1, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	$257,000	$0	$0	$26,000	$0	**$283,000**
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	**$257,000**	**$0**	**$0**	**$26,000**	**$0**	**$283,000**

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	$0	($76,000,000)	($76,000,000)	($76,000,000)	$0	**($228,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	INCREASE	$38,000,000	$34,000,000	$30,000,000	$410,000,000	**$512,000,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total		**($38,000,000)**	**($42,000,000)**	**($46,000,000)**	**$410,000,000**	**$284,000,000**

EXPENDITURE EXPLANATION

LDR anticipates an expenditure of approximately $103,000 of staff time for tax form modification, system programming, and system development due to proposed law's marijuana provisions. An additional upfront cost of approximately $154,000 of staff time is anticipated to administer new sales tax accounting of impacted business utilities, phasing in a partial exemption and new dedication, taxpayer education, and rule promulgation. LFO assumes these efforts will be primarily made prior to FY23. An additional one-time cost of $26,000 is anticipated prior to the FY26 effectiveness of the 0.45% levy dedication.

REVENUE EXPLANATION

Sales Tax Provisions:

Proposed law:
- Reduces the effective sales tax rate on certain manufacturing utilities from 2% to 1% in FY23
- Defines manufacturing utilities as eligible purchases by businesses reporting under NAICS 22 and NAICS 31-33
- Retains the 2% rate on other types of business utilities in current law, which returns to 0% in FY26
- Beginning in FY23, phases down the effective remaining 1% levy on manufacturing utilities by 0.1% per year
- Makes permanent the temporary levy of 0.45% in R.S. 47:321.1, which would otherwise expire at the end of FY25
- Dedicates the avails of taxes on manufacturing utilities to the CSF
- Beginning in FY26, dedicates the avails of the 0.45% levy to the CSF

The provision reducing the effective tax rate on manufacturing utilities from 2% to 1% and dedicating the avails of the 1%, in isolation, would result in a state **net** revenue reduction of approximately $38 million annually, beginning in FY23. This annual net revenue reduction of $38 million would consist of a general fund loss of $76 million, partially offset by a dedicated funds gain of $38 million.

The provision that phases out the remaining 1% levy on manufacturing utilities, in isolation, would reduce general fund revenue by an additional $3.8 million in FY24, $7.6 million in FY25, and $11.4 million in FY26. (As a separate provision dedicates the avails of the tax on manufacturing utilities, the phasing-out is reflected in the table above as a gain in dedicated fund revenues that shrinks from $38 million in FY23 to $34 million in FY24, and to $30 million in FY25, and so on.)

The provisions extending and dedicating the 0.45% levy, in isolation, would increase dedicated CSF funds by $384 million annually beginning in FY26, and would not impact general fund revenues.

Information on the impacts of the therapeutic marijuana provisions follows on Page 2.

Senate	Dual Referral Rules	House	
[x]	13.5.1 >= $100,000 Annual Fiscal Cost {S & H}	[x]	6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x]	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

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CONTINUED EXPLANATION from page one:

Therapeutic Marijuana Provisions:

Proposed law applies the full state sales tax rate of 4.45% to sales of raw or crude marijuana recommended for therapeutic use. These provisions, in isolation, would increase dedicated revenues to the CSF, Early Childhood Education Fund, and Public Defender Fund by indeterminable amounts beginning in FY22.

For informational purposes, based on sales in states that have recently allowed these purchases and on industry market research estimates for the state, an estimate of approximately $38 million in annual sales of raw or crude marijuana is anticipated initially, ramping up to $276 million in sales over time. This estimate accounts for the state's limited network of eligible Louisiana retailers imposed by current law, which limits the maximum number of licensed dispensaries, and results in each existing dispensary covering between four and twelve parishes. Industry research estimates that this ramp-up would be achieved by FY26. In the event that this level of sales materialized, it would imply a dedicated revenue impact of approximately $1.7 million initially, and $12 million in FY26.

(Note: these speculative dollar figures for sales of therapeutic marijuana are not included in the net figures in the revenue table on Page 1.)