LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 157** HLS 23RS 578

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: April 5, 2023 10:07 AM

Author: DEVILLIER

Dept./Agy.: Revenue

Subject: Exempts manufacturing business utilities from state sales tax

Analyst: Deborah Vivien

TAX/SALES-USE, ST-EXEMPT OR -$85,000,000 GF RV See Note

Exempts certain business utilities from a state sales and use tax levy

Present law exempts the sale of business utilities from the state sales tax but also temporarily partially suspends the exemption, subjecting business utilities to 2% of state sales tax through FY 25. In FY 26 and beyond, business utilities will be 100% exempt from state sales tax.

Proposed law would accelerate the full exemption for manufacturing (NAICS 31-33) businesses, but only for utilities used predominately and directly in the manufacturing process. The full exemption for these specific businesses and possibly some portion of their utility purchases will begin in FY 24 instead of FY 26.

Effective upon signature.

EXPENDITURES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	SEE BELOW	$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**

REVENUES	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**5 -YEAR TOTAL**
State Gen. Fd.	($85,000,000)	($85,000,000)	$0	$0	$0	**($170,000,000)**
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	**($85,000,000)**	**($85,000,000)**	**$0**	**$0**	**$0**	**($170,000,000)**

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 would cost approximately $25,680. The department will assess the cumulative effect of all bills enacted this session to determine if additional resources are required. Though it's possible that SGF may be requested, the department is expected to generate fees in excess of those budgeted that may accommodate this amount.

REVENUE EXPLANATION

Though the bill only impacts manufacturing firms, the bill 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.

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 and by type of user. 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 an exposure based on an estimated percentage of business utilities that could be claimed as used in the manufacturing process by manufacturers. Actual exposure to the state could be considerably higher given the difficulty in administration.

According to EIA data, utilities usage by industry accounts for about 1/3 of energy usage in the US. Additional usage is reported under a commercial category that could also contain manufacturers. The amount of utility use attributable to the direct manufacturing process is not reported since it is not metered separately, regardless of the manufacturing subsector. It is assumed that the entirety of utility expenditures would ultimately become exempt under this bill since there is no way to delineate from non-manufacturing use.

According to LDR, FY 22 collections of state business utility sales tax was about $170 M. If 1/2 of that amount is exempt under this bill, the annual reduction to SGF revenue would be $85 M, which is reported in the table above. However, actual impacts would depend on the percentage of business utilities in the state attributed to the manufacturing sectors, utility usage by these businesses, and the ability of LDR to determine whether a portion or all of a utility bill was attributed to the manufacturing process.

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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