LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 10** HLS 243ES 14

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: November 6, 2024 10:28 PM
Author: WRIGHT

Dept./Agy.: Revenue

Subject: Sales Tax Base Rewrite, 0.45% & Business Utilities Extension
Analyst: Benjamin Vincent

TAX/SALES & USE OR +$882,000,000 RV See Note

Provides for the rate of the state sales and use tax and provides for the exemptions, exclusions, credits, and rebates claimed against sales and use taxes (Item #8)

Proposed law modifies definitions applying to key sales tax base concepts, including definitions "tangible personal property," "person," "sale at retail," and "cost price." Significant portions of existing statute are removed from sections providing for exclusions, and significant portions are added or enacted to sections providing for exemptions. Additionally, the bill requires certain exemption/exclusions to be applied at the local level, while also repealing certain exemption/exclusions.

Some major state-level provisions include: making 0.45% levy in R.S. 47:321.1 permanent, subjecting certain nonresidential utilities to a permanent 2% tax rate, repealing certain existing exemptions, retaining certain constitutional exemptions in statute, repealing the 0.03% levy in R.S. 51:1286 while expanding the 0.97% levy in R.S. 47:331 to 1%, dedicating 3% of R.S. 47:331 to the LA Tourism Promotion District, and reducing the use tax on motor vehicles that applies to new Louisiana residents. Notable items not subject to taxation in the proposal include (but are not limited to) food for home consumption, fuels, residential utilities, and prescription drugs.

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	**$200,000**	$0	$0	$0	$0	**$200,000**
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	**$200,000**	**$0**	**$0**	**$0**	**$0**	**$200,000**

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	**$71,000,000**	**$824,000,000**	**$824,000,000**	**$824,000,000**	**$824,000,000**	**$3,367,000,000**
Agy. Self-Gen.	**$700,000**	**$9,000,000**	**$9,000,000**	**$9,000,000**	**$9,000,000**	**$36,700,000**
Ded./Other	**$800,000**	**$49,000,000**	**$49,000,000**	**$49,000,000**	**$49,000,000**	**$196,800,000**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$72,500,000**	**$882,000,000**	**$882,000,000**	**$882,000,000**	**$882,000,000**	**$3,600,500,000**

EXPENDITURE EXPLANATION

LDR anticipates a one-time additional cost of approximately $200,000 for modifications to returns, LDR software, and the web filing application, and anticipates no need for additional positions due to proposed law. Any expenditure increases would be financed via SGR out of current collections, ultimately reducing state general fund revenues mechanically. LFO assumes that these expenditures would impact FY25.

REVENUE EXPLANATION

Impact of Partial-year Effectiveness on FY 25:

The proposal expands the base of taxable sales for several months of FY 25, causing a partial-year revenue increase. LFO estimates the magnitude of this effect as approximately **+$73 million for FY 25**.

FY 26 and Subsequent Years:

LFO estimates that **making the 0.45% levy permanent would increase sales tax collections by approximately $500 million in FY 26 and subsequent years**. Taxing **nonresidential utilities at 2% would increase revenues by an additional $230 million**.

The proposal additionally expands the permanent base of taxation. LDR has estimated a net revenue effect of the proposed base changes of +$188-$206 million, based on Tax Exemption Budget (TEB) data and projections.

A potential for overlap between definitions used by Census, Bureau of Economic Analysis, and statutory and TEB language generates the risk of double-counting for certain sales tax items estimated here, e.g. installation charges for tangible personal property ($42 million). LFO believes that such sales are already captured by expanding the list of taxable services (HB 9 Original of the 3rd Extraordinary Session of 2024), and is reflected in the fiscal note for that posture of that bill. However, the effect of this provision is also included in this analysis. Should HB 9 remove the overlapping provision, the specific $42 million impact would be removed from the accompanying note and remain in this analysis. Should HB 9 achieve final passage first while still containing the provision, the $42 million impact would be removed from this analysis.

Additionally, for purchases of vehicles for lease or rental ($65 million), TEB data includes vehicles purchased for resale, which LFO interprets as remaining exempt under this proposal. LFO assumes that sales under the two exemptions are approximately equal, and that the proposal to repeal only one of the exemptions will increase collections by $32 million instead of $65 million. LFO thus estimates that **the proposed tax base modifications would likely increase sales tax collections by approximately +$152 million in FY 26 and subsequent years (half year at $73 million for FY 25)**.
(continued on Page 2)

Senate — Dual Referral Rules

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

[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

[x] 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}

Alan M. Boxberger

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CONTINUED EXPLANATION from page one:

Motor Vehicle Sales Tax & the Construction Subfund (CSF) of the Transportation Trust Fund

Approximately $50 million of the +$500 million sales tax revenue impact of the 0.45% extension is anticipated to be generated by sales on motor vehicles. **60% of such revenues are dedicated to the CSF, thus $30 million of the $500 million increase is reflected in the table above as Dedicated revenues**.

Additionally, the Dedicated and Self-generated revenue figures in the table above reflect certain minor sales tax dedications, as well as the 1% of certain collections that LDR is permitted to retain as SGR.

Impact on Local Revenues:

A detailed estimate on likely local revenue impacts due to this proposal, either at the statewide level or for any particular political subdivision, is unavailable for purposes of this analysis. Numerous local exemptions and exclusions are repealed, and numerous exemptions and exclusions are mandated by the proposal, making an overall impact unclear.

However, LFO notes a number of significant exclusions that are now mandated, including prescription drugs, purchases by government or other untaxable entities, certain food purchases, certain agricultural and medical exemptions, and certain MM&E purchases. In sum, these provisions would serve to materially reduce local sales tax revenues.

Several exemptions are repealed, which would serve to offset revenue losses to an unknown extent. Such repeals include notable items such as certain services - repairs or installation, certain purchases for lease or rental, admissions to certain events, sales of feminine hygiene products and diapers, and newspaper sales.

LFO additionally notes that other legislative proposals during this extraordinary session to expand the sales tax base to services and digital products would serve to increase local revenues to an unknown extent. The net revenue impact on political subdivisions is unclear.

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}

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