



**LEGISLATIVE FISCAL OFFICE  
Fiscal Note**

Fiscal Note On: **HB 8** HLS 243ES 9  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> November 6, 2024 10:27 PM	<b>Author:</b> BRASS
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Benjamin Vincent
<b>Subject:</b> Sales Tax Base Expansion: Digital Products	

TAX/SALES & USE OR +\$40,000,000 RV See Note Page 1 of 1  
 Levies sales and use taxes on certain digital products and services (Items #8 and 13)

Current law generally excludes services from the sales and use tax base, and subjects a number of services to sales and use taxation explicitly by listing them as taxable services in statute. Digital items (e.g. media or certain software) are not clearly or consistently treated as either tangible personal property or taxable services, although some specific digital items are taxed as goods.

Proposed law adds a list of items to be included into the sales and use tax base as digital products, beginning on January 1, 2025. Newly-taxable digital products include, but are not limited to, audio or audiovisual works, books, games, applications, periodicals, other information services, and access to certain software services.

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.	<b>SEE BELOW</b>	<b>SEE BELOW</b>	<b>SEE BELOW</b>	<b>SEE BELOW</b>	<b>SEE BELOW</b>	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
<b>Annual Total</b>						
REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	<b>\$22,000,000</b>	<b>\$39,000,000</b>	<b>\$39,000,000</b>	<b>\$39,000,000</b>	<b>\$39,000,000</b>	<b>\$178,000,000</b>
Agy. Self-Gen.	<b>\$200,000</b>	<b>\$400,000</b>	<b>\$400,000</b>	<b>\$400,000</b>	<b>\$400,000</b>	<b>\$1,800,000</b>
Ded./Other	<b>\$200,000</b>	<b>\$400,000</b>	<b>\$400,000</b>	<b>\$400,000</b>	<b>\$400,000</b>	<b>\$1,800,000</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<b>INCREASE</b>	<b>INCREASE</b>	<b>INCREASE</b>	<b>INCREASE</b>	<b>INCREASE</b>	
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

LDR anticipates a one-time cost to accommodate required updates to returns, exemption certificates, LDR software, and the web-filing application, amounting to approximately \$80,000. LDR anticipates no need for additional positions or resources, despite a significant increase in likely demand for taxpayer assistance. LFO notes that increased collections will rely on taxpayer compliance and likely require increased education and enforcement. Any expenditure increases would be financed via SGR out of current collections, reducing SGF revenues mechanically.

**REVENUE EXPLANATION**

Data for activities related to all items included in the proposal imply a range of \$1.1-\$1.3 billion dollars in sales that would potentially be taxable due to proposed law. It is unclear to what extent these data overlap with activities that are already taxed, but it is possible that a significant portion of digital media transactions may already be frequently taxed and remitted voluntarily, in anticipation by firms of this potential trend in state taxation.

Assuming the current-law 4.0% tax rate (except for the 4.45% for the partial-year impact in FY25), these figures would imply a range of revenue impacts of \$44-\$62 million. LFO's preferred estimate in this range, adjusted by an additional assumption of existing voluntary compliance of 35%, results in an **approximately +\$40 million annual revenue impact** overall, following a partial-year impact of approximately +\$22 million in FY 25.

A minor portion of the revenue impact will accrue to non-SGF revenues. The Dedicated and Self-generated revenue figures in the table above reflect impacts on certain minor sales tax dedications, as well as the 1% of certain collections that LDR is permitted to retain as SGR.

The expanded base will additionally serve to increase local sales tax revenues by an indeterminable amount that will vary for each taxing authority.

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}

*Alan M. Boxberger*  
 Alan M. Boxberger  
 Legislative Fiscal Officer