LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 653** HLS 13RS 714

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: May 5, 2013 2:02 PM **Author:** ROBIDEAUX

Dept./Agy.: Revenue

Subject: Sales Tax Rate Increase, Service Base, Exemptions **Analyst:** Greg Albrecht

TAX/SALES & USE OR INCREASE GF RV See Note

Changes the state sales and use tax rate and provides for the taxability of sale and services

The bill retains local sales tax exemptions but eliminates state tax exemption for numerous exempt transactions. Imposes a 2.25% tax rate increase on the tax base, both existing and eliminated exemptions (total new tax rate of 6.25%). Extends the new tax rate to all services, but then lists new services that are exempt. Excludes sellers with annual gross receipts less than $10,000. Reduces vendor compensation for timely remittance from 1.1% of collections to 1.0%, but provides a $50/month cap of the dollar amount of compensation allowed per dealer. Requires annual consumer use tax return filing starting July 1, 2014. Effective January 1, 2014, contingent upon legislation repealing income and franchise taxes.

EXPENDITURES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

REVENUES	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**5 -YEAR TOTAL**
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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						

EXPENDITURE EXPLANATION

The Department of Revenue will incur substantial costs to prepare for and implement the major changes in sales tax proposed by the bill. Specific costs are uncertain but could be several hundreds of thousands of dollars in setup modifications to existing systems, plus the need for additional staff to administer a greatly expanded sales tax. Every ten additional personnel could incur about $1 million in extra payroll, overhead, and support costs; inclusive of one-time equipping, with somewhat lesser costs likely on a recurring basis.

REVENUE EXPLANATION

The estimate of sales tax on new services was developed by Ernest & Young from a widely used economic modeling tool known as Implan. The methodology was reviewed by the LFO and found to be reasonable, although specific estimates of revenue are uncertain and can not be relied upon with a high degree of confidence. Annual estimates of revenue gain were in excess of $1.5B, with only one-half that potentially occurring in FY14.

The bill also imposes an additional 2.25% tax rate on the existing tax base. The rate increase should generate as much as $827M in the second half of FY14, annualizing to $1.6B, for general and vehicle sales combined.

Transactions with preferential tax rates (telecomm and various miscellaneous sales) are also subject the 2.25% tax rate. An additional $50M+ in reveue could be gained from these transactions.

The bill eliminates the state tax exemption for numerous transactions, and subjects them to a 6.25% tax. These transactions are largely reported in a catchall line on the sales tax form along with numerous other exempt transactions not being affected by the bill. Identification of the base of sales and associated sales taxes affected by the bill is not possible, and no estimate for this component of the bill is included.

Miscellaneous provisions include newly defined digital goods as tangible property subject to the 6.25% total state sales tax rate of the bill. Identification of this sales base is not possible and no tax estimate is included. The bill also requires a new annual consumer use tax return be filed by each person on purchases for which sales tax has not been paid. Purchases made by businesses are not required to be reported. Actual tax liability can be remitted or a safe-harbor remittance amount can be utilized as provided by the Department. No estimate for this component of the bill is included. The bill reduces the vendor compensation allowed dealers from the current 1.1% to 1.0% with a $50/month cap of the dollar amount of compensation. This component of the bill might generate some $10 million of higher net sales tax collections.

Additional state sales tax collections will occur as a result of the bill, but specific estimates of those collections in each fiscal year is highly uncertain. The bill extends sales tax to a wide variety of transactions and businesses that have never been subjected to tax before, or have been exempt from tax for many years. Substantial taxpayer learning and guidance will be required to ramp up collections to the level consistent with the true tax base that will be revealed and a routine remittance pattern that will eventually occur as taxpayers become experienced with their new responsibilities.

Senate	Dual Referral Rules	House
[x] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F) >= $500,000 Annual Fiscal Cost {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}

John D. Carpenter

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