

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 101** HLS 161ES 189
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 22, 2016 12:22 PM	Author: JACKSON
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: Expanded Base for State Sales and Use Tax	

TAX/SALES-USE, STATE OR +\$434,900,000 GF RV See Note Page 1 of 1
 Provides for the extent of applicability of various exclusions and exemptions from state sales and use tax (Item #36)

Current law imposes a 4% state sales and use tax on sales of tangible personal property and certain services with specific exemptions and exclusions. A statutory dedication of 0.4% of remittances with \$2M to the Marketing Fund and the remainder to the LA Economic Development (LED) Fund are required. Business utilities are taxed at 1% for 2015-16 fiscal year.

Proposed law expands the existing sales tax base by eliminating exemptions for business utilities, purchases of manufacturing machinery and equipment (MM&E), certain trucks and trailers used 80% in interstate commerce, and purchases during sales tax holidays, among many other transactions. The dedication to the Marketing Fund and LED Fund are retained. Presumably local taxation and hotel dedications are not changed. Effective upon signature for taxable periods beginning April 1, 2016.

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2016-17	2017-18	2018-19	2019-20	2020-21	5 -YEAR TOTAL
State Gen. Fd.	\$434,900,000	\$434,900,000	\$434,900,000	\$434,900,000	\$434,900,000	\$2,174,500,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$1,900,000	\$1,900,000	\$1,900,000	\$1,900,000	\$1,900,000	\$9,500,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$436,800,000	\$436,800,000	\$436,800,000	\$436,800,000	\$436,800,000	\$2,184,000,000

EXPENDITURE EXPLANATION

The Department of Revenue indicates that any expense related to this bill will be absorbed in the current budget. However, implementation will require a substantial effort to change forms, systems and provide customer service for such an extensive change to a multitude of items that were not previously taxed and others with a tax rate increase. Costs and human resources required for implementation could be significant.

REVENUE EXPLANATION

With sales tax collections currently showing little growth over last year, FY 15 actual figures will serve as an estimate for an annual impact to state revenues with respect to currently taxed transactions. The Department of Revenue data in the Tax Exemption Budget is used for currently exempt transactions. These data sources suggest that state revenue will increase by about \$437M in FY17 and annually thereafter due to these major factors (\$ millions):

	Annual	FY 16*
New Taxable Base	436.8	84.95
less: Dedication of 0.4% to LED Funds	(1.9)	(0.5)
NET Collections	434.9	84.45

New Taxable Base (\$ Millions)

	Annual	FY 16*
MM&E	80.0	20.0
Business Utilities	240.0	60.0
Certain Trucks and Trailers	19.6	4.9
Sales Tax Holidays	5.2	0.05
Other (Assuming 10%)	92.0	0.0
TOTAL	436.8	84.95

*These estimates imply a full quarter of unprotested collections based on an annualized amount. Actual collections could be lower, especially in the first months of implementation as compliance improves. The category of "Other" sales is assumed at zero for the first three months. The first FY 16 collections affected by this bill will be due May 20. Any error inherent in the base figures are also carried into this estimate, which increases uncertainty.

All of the figures in the note are preliminary due to the expedited analysis of an extensive change to legislation. Further analysis could materially alter this estimate.

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| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | |
| <input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

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