



LEGISLATIVE FISCAL OFFICE
Fiscal Note

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

Date: March 1, 2016 12:17 PM	Author: JACKSON
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: Expanded Base for State Sales and Use Tax	

TAX/SALES-USE, STATE EG +\$789,900,000 GF RV See Note Page 1 of 2
 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 retains current law, increases the sales tax rate by 0.5% to 4.5%, and expands the existing sales tax base by eliminating exemptions for business utilities and certain trucks and trailers used 80% in interstate commerce among many other transactions. 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.	\$789,900,000	\$789,900,000	\$789,900,000	\$789,900,000	\$789,900,000	\$3,949,500,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$7,900,000	\$7,900,000	\$7,900,000	\$7,900,000	\$7,900,000	\$39,500,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$797,800,000	\$797,800,000	\$797,800,000	\$797,800,000	\$797,800,000	\$3,989,000,000

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 in FY17 due to these major factors (\$ millions):

	Annual	FY 16*
0.5% on Current Taxable Base	395.3	98.8
4.5% on New Taxable Base	405.3	75.9
0.5% on Hotels	4.7	1.2
Vendor's Compensation	(-7.5)	(3.8)
GROSS Collections	797.8	172.1
less: Hotel Tax Dedication to Locals	(4.7)	(1.2)
less: Dedication of 0.4% to LED Fund	(3.2)	(0.8)
NET Collections	789.9	170.1

4.5% on New Taxable Base (\$ Millions)

	Annual	FY 16*
MM&E	0.0	0.0
Business Utilities	270.0	67.5
Certain Trucks and Trailers	22.0	5.5
Vehicle Rentals	0.0	0.0
Manufactured Homes	0.0	0.0
Sales Tax Holidays	0.0	0.0
Tax Free Shopping	0.0	0.0
Other (Assuming 10%)	101.6	0.0
1% Base	11.7	2.9
TOTAL	405.3	75.9

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

John D. Carpenter
 Legislative Fiscal Officer

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CONTINUED EXPLANATION from page one:

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REVENUE SUMMARY

(CONTINUED from Page 1)

*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.

The bill may impact many local exemptions and exclusions, presumably increasing the taxable base. However, time constraints do not allow an analysis of local impacts.

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

Senate Dual Referral Rules House

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

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

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Handwritten signature of John D. Carpenter.

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