

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 25** SLS 161ES 344
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date:	Author: CORTEZ
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: Expanded Base for State Sales and Use Tax	

FUNDS/FUNDING OR +\$508,600,000 GF RV See Note Page 1 of 1
 Sunsets all sales and use tax exemptions other than those that are constitutionally protected. (Item #36)(7/1/17)

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 appears intended to remove every exclusion and exemption to the 4% statewide sales tax, including the 0.03% tax imposed for the Tourism Promotion District. The only exemptions remaining are those required by the state Constitution and federal law. Exemptions remaining include sales tax on food, prescription drugs, residential utilities, presumably motor fuels, sales to the federal government, and those related to interstate commerce. Vendors' compensation (0.935%) and statutory dedications (0.4% to LED/Marketing Fund) are not affected. Effective on July 1, 2017.

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.	\$0	\$508,600,000	\$508,600,000	\$508,600,000	\$508,600,000	\$2,034,400,000
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$6,900,000	\$6,900,000	\$6,900,000	\$6,900,000	\$27,600,000
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$515,500,000	\$515,500,000	\$515,500,000	\$515,500,000	\$2,062,000,000

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 transactions anticipated to be taxed in FY 18 and beyond. The Department of Revenue data reported in the Tax Exemption Budget is used for currently exempt transactions. The bill appears to intend the elimination of all exclusions or exemptions to the sales tax. Data limitations prevent a comprehensive analysis, particularly in a short timeframe. Taxation of certain categories such as sales for resale, isolated or occasional sales, sales between governments (other than federal) etc., could materially increase the estimate, though actual collection and/or enforcement of these categories is uncertain. The known data sources suggest that state revenue will increase in FY18 due to these major factors :

3.97% on New Taxable Base (\$ Millions)

	Annual
MM&E	75.1
Business Utilities	240.0
Certain Trucks and Trailers	19.5
Vehicle Rentals	54.1
Manufacturer Rebates-New Cars	16.2
Manufactured Homes	7.5
Sales Tax Holidays	5.0
Tax Free Shopping	0.0
Other (Assuming 10%)	90.3
1% Base	7.8
TOTAL STATE REVENUE	515.5

Vendors' Compensation	4.8
LED/Marketing Fund	2.1
TOTAL STATUTORY DEDICATIONS	6.9

Tourism Promotion District (0.03%) 3.9
 (separately imposed and fully dedicated; not in table above)

NET STATE REVENUE (minimum) 508.6

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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} | |

John D. Carpenter
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