LEGISLATIVE FISCAL OFFICE
Fiscal Note

Date: March 4, 2016	12:36 PM		**Author:** CORTEZ
Dept./Agy.: Revenue			
Subject: Expanded Base for State Sales and Use Tax			**Analyst:** Deborah Vivien

FUNDS/FUNDING   EG +$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. Exemptions remaining include sales for resale, sales tax on food, prescription drugs, residential utilities, motor fuels, sales to governments, and those related to interstate commerce and any other federal prohibitions. 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. Data limitations and a short time frame prevent any comprehensive analysis. 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
NET STATE REVENUE (minimum)	508.6

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