



**LEGISLATIVE FISCAL OFFICE**

**Fiscal Note**

**ACT 25**

Fiscal Note On: **HB 61** HLS 161ES 26

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

|  |                                |
|--|--------------------------------|
| <b>Date:</b> March 30, 2016 7:14 PM    | <b>Author:</b> MORRIS, JAY     |
| <b>Dept./Agy.:</b> Revenue             | <b>Analyst:</b> Deborah Vivien |
| <b>Subject:</b> Expands Sales Tax Base |                                |

TAX/SALES & USE EN +\$272,300,000 GF RV See Note Page 1 of 1

Dedicates the avails of the existing two percent state sales and use tax to the Stability in Higher Education Fund and provides with respect to the extent of that tax base for purposes of monies available for deposit into the fund (Items #7 and 36)

Current law imposes a 4% statewide 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 the 2015-16 fiscal year.

New law expands the base of all 4% (3.97% of state sales tax and 0.03% imposed by Tourism and Promotion District) beginning 4/1/16. Primarily, the two 1% impositions (47:321 and 331) are taxable until 7/1/16 and the 2% imposition (47:302) is taxable until 7/1/18. However, manufacturing machinery & equipment is taxable at 1% until 6/30/18 and business utilities are taxable at 3% through 7/1/18, then 1% through 4/1/19. Many items previously exempt are taxable at 4% until 7/1/16, then 2% until 7/1/18 including manufacturers' rebates on vehicles, all sales tax holidays, purchases for lease/rental other than vehicles, isolated/occasional sales, certain repairs and labor charges along with numerous others. Farm fuels remain exempt. The \$25 per cash register reprogramming credit is repealed. The LED dedication and vendor's compensation calculations are unchanged. Effective upon signature for taxable periods beginning 4/1/16 through 4/1/19.

| 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           |
| <b>Annual Total</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b>    |

  

| REVENUES            | 2016-17              | 2017-18              | 2018-19             | 2019-20    | 2020-21    | 5 -YEAR TOTAL        |
|---------------------|----------------------|----------------------|---------------------|------------|------------|----------------------|
| State Gen. Fd.      | \$272,300,000        | \$272,300,000        | \$45,000,000        | \$0        | \$0        | \$589,600,000        |
| Agy. Self-Gen.      | \$0                  | \$0                  | \$0                 | \$0        | \$0        | \$0                  |
| Ded./Other          | \$4,500,000          | \$4,500,000          | \$0                 | \$0        | \$0        | \$9,000,000          |
| Federal Funds       | \$0                  | \$0                  | \$0                 | \$0        | \$0        | \$0                  |
| Local Funds         | \$0                  | \$0                  | \$0                 | \$0        | \$0        | \$0                  |
| <b>Annual Total</b> | <b>\$276,800,000</b> | <b>\$276,800,000</b> | <b>\$45,000,000</b> | <b>\$0</b> | <b>\$0</b> | <b>\$598,600,000</b> |

**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 from the Tax Exemption Budget (or the REC forecast for business utilities) will serve as an estimate for an annual impact to state revenues with respect to transactions taxed under this bill. These data sources suggest that state revenue will increase due to these major factors (\$ millions):

**New Taxable Base (\$ Millions)**

|                               | Annual       | FY 16*      | FY 19       |
|-------------------------------|--------------|-------------|-------------|
| MM&E                          | 18.8         | 4.7         | 0.0         |
| Business Utilities            | 180.0        | 45.0        | 45.0        |
| Manufacturers' Rebate New Car | 8.1          | 4.0         | 0.0         |
| Sales Tax Holidays            | 2.5          | 0.0         | 0.0         |
| Other (Assuming 10%)          | 67.3         | 13.2        | 0.0         |
| 1% Base                       | 5.2          | 1.9         | 0.0         |
| Farm Fuel                     | (4.0)        | (2.0)       | 0.0         |
| Vendor Compensation           | (1.1)        | (0.3)       | (0.0)       |
| <b>TOTAL</b>                  | <b>276.8</b> | <b>66.5</b> | <b>45.0</b> |
| Tourism Promotion District    | (1.9)        | (0.0)       | (0.0)       |
| LED Fund                      | (2.6)        | (0.6)       | (0.0)       |
| <b>Net SGF Impact</b>         | <b>272.3</b> | <b>66.7</b> | <b>45.0</b> |

\*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 before compliance improves. The category of "Other" sales is assumed at 10% of its reported value due to substantial uncertainty historically associated with its contents, and is where REC and final LDR interpretation discrepancy is reflected. The first FY 16 collections affected by this bill will be due May 20. Error in the base figures for currently nontaxable transactions increases uncertainty associated with the overall estimate of the bill. FY 19 is three quarters of the annual estimate of the business utilities sales tax which will be in effect at 1% for 9 months of FY 19 (through 4/1/19). In addition, actual collections could be materially affected by taxpayer behavior that can be different in response to temporary taxation versus permanent taxation. For more detail on taxable transactions, please see <http://www.rev.state.la.us/SalesTax/SalesTaxRates>

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}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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