

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **HB 562** HLS 17RS 909  
 Bill Text Version: **ORIGINAL**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 6, 2017	3:37 PM	<b>Author:</b> JACKSON
<b>Dept./Agy.:</b> REVENUE		<b>Analyst:</b> Benjamin Vincent
<b>Subject:</b> Sales Tax: Services		

TAX/SALES & USE OR INCREASE GF RV See Note Page 1 of 2  
 Adds sales of certain services to the sales and use tax base, and defines certain media as tangible personal property for the purposes of sales and use tax. Expands certain exemptions, removes certain exemptions, and clarifies certain exclusions.

Current law imposes a state sales and use tax on tangible personal property, and provides for exemptions and exclusions.

Proposed law adds sales of certain services and media to the sales and use tax base. Proposed law lists 103 exemptions and exclusions, and applies the list uniformly to all levies of the state sales and use tax. It provides that the definition of "sale at retail" excludes pollution control devices for the purposes of sales tax refunds, and that the definition of "isolated or occasional sale" excludes certain vehicles for the purposes of state sales and use tax.

Provisions for exclusions and exemptions are effective September 1, 2017. Provisions for taxation of services and certain media are effective November 1, 2017. Remaining provisions are effective upon governor's signature.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Ded./Other	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Federal Funds	\$0	\$0	\$0	\$0	\$0	<b>\$0</b>
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

The Dept. of Revenue (LDR) will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (in this case \$102,720). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

**REVENUE EXPLANATION**

Significant caution should be taken when considering estimated impacts of any provision of proposed law. Data capable of providing anything better than a rough estimate is not available. Also, significant collections challenges exist, particularly with certain digital media. It is possible that actual collections will be materially smaller than the estimated base.

Assuming a 4% tax rate for FY19-FY22, a 5% rate for FY18, and a compliance ramp-up assumption affecting about 30% of FY18 collections, the impact of expanding the base to include certain services and media is estimated to be a gain of \$147 million in FY18, and \$251 million in FY19-FY22. (Further detail on these provisions is provided on page 2.)

Proposed law also applies a single list of exemptions and exclusions for the levies in Title 47, Sections 302, 321, 321.1, and 331. The list leaves out certain items that are currently exempted, thereby increasing the tax on these transactions to the full rate. The uniform list would also expand numerous partial exemptions to full exemptions, and make certain items that are currently taxed fully exempt.

Exemptions that are removed include MM&E, electrical cooperatives, purchases of liquefied petroleum gases for farm purposes, and the Louisiana Tax Free Shopping Program. Removing these exemptions would increase revenues by roughly \$82 million in FY18, and \$98 million in FY19-FY22. The exemptions that are expanded or enacted would result in a revenue decrease of unknown size. The impact of this provision is unknown, but seems likely smaller than the services provision.

The provision clarifying the "sale at retail" definition would reduce the amount available for refund of taxes paid on purchases of pollution control equipment. The provision clarifying "isolated or occasional sale" would reduce the amount excluded from the sales tax base by making isolated or occasional sales of aircraft and recreational boats taxable. Both of these provisions would increase revenues, but the size of the increase is unknown, as LDR has no data on this subset of transactions.

The overall impact of proposed law will be an increase to general fund, statutory dedications, and local funds. However, as it is unclear whether the uniform exemption list adds or reduces revenue overall, the dollar amount is indeterminable.

Senate Dual Referral Rules  
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}  
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House  
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}  
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

*Gregory V. Albrecht*  
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**Chief Economist**

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**CONTINUED EXPLANATION from page one:**

Further information on estimate for services and media provision:

Some prior investigation into the possible impacts of expanding the base to services has been conducted. An estimate of a similar provision, based on Census Bureau data compiled by LDR, suggests that the services provision of proposed law would yield \$269 million, using a 4% tax rate. Another estimate, based on Louisiana sales and trade flow data contained in a state input-output model (IMPLAN), suggests the gain would be \$241 million. Still another estimate, based on projections from a recent paper by economists at Tulane University, suggests an impact of \$251 million.

The provision that taxes certain media is partially included in two of the studies on expanding the sales tax base to services, referenced above. LDR notes in Revenue Ruling 10-001 that purchases of all types of digital media are already subject to sales and use tax, but that only some of these transactions are effectively taxed. Additionally, current law already imposes a tax on (and provides certain exemptions to) printed media. The challenge of effectively collecting taxes on these already-taxable transactions is not likely to be mitigated by proposed law. Thus, the impact of the media provisions will likely be marginal. However, an analysis using market research data and personal consumption data for Louisiana indicates a potential revenue impact of \$21 million, if the collections challenges were fully overcome and transactions were taxed at 4%. The estimated value of the base expansion to services already includes this type of media service, so the \$21 million figure is not added to avoid double-counting.

Note that the FY18 revenue impact for this provision differs from the figure in the HB655 fiscal note, although the services and media taxed are identical to this bill. The difference in that year is due to proposed law's effective date.

Senate      Dual Referral Rules

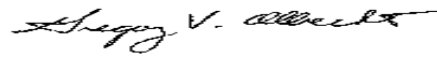
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