



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 61** HLS 161ES 26
 Bill Text Version: **ENGROSSED**
 Opp. Chamb. Action: **w/ HSE FLOOR AMD**
 Proposed Amd.:
 Sub. Bill For.: **REVISED**

Date: March 2, 2016 1:16 PM **Author:** MORRIS, JAY
Dept./Agy.: Revenue **Analyst:** Deborah Vivien
Subject: Expands base and dedicates to HIED 2% of sales tax

TAX/SALES & USE EGF SEE FISC NOTE GF RV See Note Page 1 of 2
 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% 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 expands the base of 1% of sales tax (R.S. 47:321) and dedicates all proceeds from the existing base of the 2% sales tax (R.S. 47:302) to the Stability in Education Fund (created in this bill). Some less material 47:302 base provisions are also expanded. The LED Fund dedication of .4% of sales tax collections is limited to the 2% sales tax. Many items previously exempt would be taxable at 1% including business utilities (beyond August 2016), manufacturing machinery & equipment (MM&E), manufactured homes, LA Tax Free Shopping (eligible only on 1%), all sales tax holidays, among others. Contingent upon enactment of as yet unidentified bills in this session duplicating HBs 211 and 495 of 2015, which deal with membership and power of the Joint Capital Outlay Committee. Effective April 1, 2015. **AMENDMENTS 550 & 521 ONLY**

| 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 | \$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 |

EXPENDITURE EXPLANATION

Without enactment of bills duplicating HBs 211 and 485 of 2015, there is no anticipated direct material effect on governmental expenditures as a result of this measure. With enactment of the bills, the Department of Revenue and Treasury indicate that any expense related to this bill will be absorbed in the current budget. However, implementation will require a substantial effort to create and monitor the fund, 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

The bill is contingent upon enactment of 2016 ES1 bills duplicating HBs 211 and 485 of 2015 Regular Session, which are not proposed at this time. Thus, enactment of this bill by itself will have no revenue impact. Assuming appropriate bills are passed during the ES1 session of 2016, changing the membership and powers of the Joint Legislative Committee on Capital Outlay, the estimate would appear as below:

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 may be affected by the following amounts on a full year annual basis (\$ millions):

SGF

| | |
|--------------------------------------|------------------|
| Dedication of 2% base | (1,581.3) |
| 1% on Expanded Base | 116.3 |
| 1/3 of LED Fund Dedication Reduction | 3.0 |
| SGF Net impact | (1,462.0) |

Statutory Dedications

| | | | | |
|--|----------------|------|---------------------------------------|----------------|
| Stability in Education Fund | 1,586.9 | ---> | Dedication of 2% base (pre expansion) | 1,581.3 |
| | | | 2/3 of LED Fund Dedication Reduction | 5.6 |
| | | | | <u>1,586.9</u> |
| Reduction of LED Fund dedication | (8.3) | | | |
| Statutory Dedication Net Impact | 1,578.6 | | | |

(CONTINUED on page 2)

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|--|----------------------------|--|
| Senate | <u>Dual Referral Rules</u> | House |
| <input checked="" 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} |

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Chief Economist

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CONTINUED EXPLANATION from page one:

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REVENUE EXPLANATION (continued from page 1)

| 1.0% on New Taxable Base (\$ Millions) | | |
|---|---------------|--|
| | Annual | FY 16* |
| MM&E | 18.8 | 4.7 |
| Business Utilities | 60.0 | 15.0 (taxed at 2% until August, 2016) |
| Certain Trucks and Trailers | 4.9 | 1.2 |
| Vehicle Rentals | 0.0 | 0.0 |
| Hotel/Motel | 0.0 | 0.0 (dedication swap; current 2% hotel from locals to HIED; ~ \$18.6M) |
| Manufacturers' Rebate New Car | 4.0 | 1.0 |
| Manufactured Homes | 1.9 | 0.5 |
| Sales Tax Holidays | 1.3 | 0.0 |
| Tax Free Shopping | 0.3 | 0.0 |
| Other (Assuming 10%) | 22.6 | 0.0 |
| 1% Base | 2.6 | 0.7 |
| TOTAL | 116.3 | 23.1 |

Actual affects of the bill could be lower in the first months of implementation until compliance and enforcement improves.

Effects in FY16 are highly uncertain as to additional revenue collections as well as to the amounts dedicated to the new fund created by the bill, the Stability in Higher Education Fund. It is possible that substantial amounts of general fund revenue could be lost to the new dedication in the latter months of the fiscal year.

Note: The note incorporates additional information from further analysis of the bill, as amended on the House Floor, and a correction to the total of the FY16 revenue from the 1% expanded base in the table above (line item component values have not changed).

It appears that the amendments expand the base for the permanent penny (47:321) instead of the two penny imposition (47:302). However, a few relatively small exemptions remain suspended from the two penny tax. The bill dedicates the proceeds of the two penny tax to Higher Education but does not dedicate the 1% on the newly expanded base, which will now go to the state general fund.

Senate Dual Referral Rules House

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