



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 559** HLS 17RS 1000
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: April 21, 2017 11:26 AM	Author: BROADWATER
Dept./Agy.: REVENUE	Analyst: Benjamin Vincent
Subject: Sales/Use Tax Excl/Exem/Ref: Machinery/Business Utilities	

TAX/SALES-USE, STATE OR INCREASE GF RV See Note Page 1 of 1

Repeals the state sales and use tax exclusion for manufacturing machinery & equipment (MME) and the exemption for business utilities, and provides a refund for state sales and use tax collected on certain MME and industrial utilities.

Current law provides a sales and use tax exclusion for the sale, use, lease or rental of MME. It also provides an exemption for the sale at retail, use, consumption, distribution, and storage for business utilities including water, steam, electric power or energy, natural gas, and all energy sources when used for boiler fuel except refinery gas. It also provides an exemption for the sale or purchase of utilities used by steelworks, blast furnaces, coke ovens, or certain rolling mills.

Proposed law repeals these exclusions and exemptions, and establishes a refund on taxes paid on MME, and for tax paid on steam, water, electric power or energy, natural gas, and all energy sources used by certain manufacturers. It also authorizes local political subdivisions to provide the same refund as the state, and leaves certain exemptions for local taxes in place.

Effective July 1, 2017.

EXPENDITURES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$140,000	\$140,000	\$140,000	\$140,000	\$140,000	\$700,000
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$140,000	\$140,000	\$140,000	\$140,000	\$140,000	\$700,000

REVENUES	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	DECREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total						

EXPENDITURE EXPLANATION

LA Dept. of Revenue (LDR) reports that in addition to minor programming, testing, and development costs, two Revenue Tax Specialists positions are expected to be required to administer the large amount of refund requests anticipated. The cost figure above represents two positions at the midpoint salary range including benefits.

REVENUE EXPLANATION

Current law provides various exemptions for MME and business utilities, and imposes a variety of rates. A rate of 1% is imposed on MME purchases until July 1, 2018, at which time they will become fully exempt. The utilities exemptions affected by proposed law will remain suspended to 1% of tax until April 1, 2019, at which time they will become fully exempt, except for energy sources and materials used for boiler fuel, which will continue to be subject to a 1% rate.

Proposed law would repeal the business utilities exemptions and MME exclusion. The MME exclusion would be replaced with a refund. For manufacturers, partial or full refunds would replace the utilities exemptions. Each purchase would be subject to the full rate of tax, and the taxpayer would be required to file a request for refund of the taxes paid. For non-manufacturers, business utilities purchases would become fully taxable.

The MME provision in proposed law would change the tax rate on MME purchases from 1% to 0% for FY18, and have no impact on FY19-FY22. This MME provision in isolation implies a FY18 revenue loss of approximately \$22M.

The utilities provision would reduce tax liabilities on business utilities for manufacturers from 4% to 2.5% in FY18. LDR notes that because the impositions under R.S. 47:331 and 47:321 would be ineligible for the refund in all years following FY18, manufacturers' tax liabilities on most utilities would increase from 1% to 1.5% in FY19-FY22.

The utilities provision would result in an increase in tax liability for non-manufacturers from 4% to 5% in FY18, and 0% to 4% in all years following.

LDR reports that nonresidential utilities purchases affected by proposed law total approximately \$5.2B annually, but there is no available data on the proportion of utilities purchased by manufacturers. However, it is likely that the proportion of utilities purchased by manufacturers is high. An estimate of the revenue impact due to the utilities provision is therefore not feasible, and the projected net revenue impact of proposed law in FY18 is a decrease of unknown size, while the impact in FY19-FY22 will be an increase of unknown size.

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}

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