

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **SB 38** SLS 051ES 208
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Sub. Bill For.:
 Proposed Amd.:

Date: November 7, 2005 6:41 PM	Author: MOUNT
Dept./Agy.: Revenue	
Subject: Sales Tax On Nonresidential Natural Gas and Electricity	Analyst: Greg Albrecht

TAX/TAXATION OR -\$20,370,000 GF RV See Note Page 1 of 1

Increases the "suspended" state sales tax exemption for natural gas and electricity so that the effective tax rate for the remainder of the suspension period (1/1/06 - 6/30/09) decreases from 3.8% to 3.3%. (1/1/06)
Current law subjects sales for nonresidential purposes of natural gas for energy, electric power, steam, and water to a 3.8% state sales tax through FY09. After that a 1% tax would apply.

Proposed law reduces the tax on sales for nonresidential purposes of natural gas for energy and electric power to a 3.3% rate for the period January 1, 2006 through June 30, 2009. After that these sales would be subject to the 1% tax provided in current law.

Effective January 1, 2006.

EXPENDITURES	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>5 -YEAR TOTAL</u>
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0
REVENUES	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>5 -YEAR TOTAL</u>
State Gen. Fd.	(\$20,370,000)	(\$32,980,000)	(\$31,040,000)	(\$28,130,000)	\$0	(\$112,520,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	(\$630,000)	(\$1,020,000)	(\$960,000)	(\$870,000)	\$0	(\$3,480,000)
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	(\$21,000,000)	(\$34,000,000)	(\$32,000,000)	(\$29,000,000)	\$0	(\$116,000,000)

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

Sales for nonresidential energy purposes of natural gas, electric power, steam, and water have been subject to a 3.8% tax rate since July 2003. Collections from taxation of these sales (exclusive of an estimated \$4 million of collections associated with sales of water and steam) have been closely associated with the price of natural gas; \$30.8 million and \$31.3 million per dollar of annual average gas price in FY04 and FY05, respectively, even as gas prices rose by more than 21% across the two years. The \$10.00/mcf and \$8.00/mcf gas prices currently assumed in the official revenue forecasts for FY06 and FY07 imply that these sales will generate approximately \$317 million in FY06 and \$257 million in FY07, respectively. Current gas price projections for FY08 and FY09 imply expected collections of \$246 million and \$223 million in those two years.

A 3.3% tax rate on these transactions would result in approximately \$21 million of reduced collections in the second half of FY06, and \$34 million of reduced collections through all of FY07. Revenue losses in FY08 would be some \$32 million, and in FY09 \$29 million.

The bill reduces by 30% the 0.97% State tax rate applied to these sales in R.S. 47:331. That State levy is associated with the 0.03% Tourism Promotion District tax rate imposed in R.S. 51:1286, which is subject to the same exemptions and suspensions of exemptions as the State levy in R.S. 47:331. Thus, the revenue losses resulting from this bill are shared by the State and the Tourism Promotion District.

It is possible that there will be some curtailment of nonresidential purchases of natural gas and electric power as a result of the economic disruption associated with hurricanes Katrina and Rita. To the extent that occurs and holding all other influences constant, the revenue losses resulting from this bill would be somewhat lower than estimated here.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

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

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