

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 82** HLS 051ES 307
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Sub. Bill For.:
 Proposed Amd.:

Date: November 7, 2005 6:54 PM	Author: MORRISH
Dept./Agy.: Revenue	Analyst: Greg Albrecht
Subject: Sales Tax On Nonresidential Natural Gas and Electricity	

TAX/SALES-USE, STATE OR -\$255,000,000 GF RV See Note Page 1 of 1
 Excludes from the state sales and use tax sales of natural gas and electricity (Item #17)

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 eliminates the entire 3.8% tax on sales for nonresidential purposes of natural gas for energy and electric power effective July 1, 2006.

Effective July 1, 2006.

EXPENDITURES	2005-06	2006-07	2007-08	2008-09	2009-10	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2005-06	2006-07	2007-08	2008-09	2009-10	5 -YEAR TOTAL
State Gen. Fd.	\$0	(\$255,000,000)	(\$244,000,000)	(\$221,000,000)	(\$57,000,000)	(\$777,000,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	(\$2,000,000)	(\$2,000,000)	(\$2,000,000)	\$0	(\$6,000,000)
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>	\$0
Annual Total	\$0	(\$257,000,000)	(\$246,000,000)	(\$223,000,000)	(\$57,000,000)	(\$783,000,000)

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. For the FY10, the projected collections are \$57 million based on the 1% tax rate in current law for that and subsequent fiscal years.

Elimination of the entire tax on these transactions would result in approximately \$257 million of reduced collections in FY07. Revenue losses in FY08 would be some \$246 million, and in FY09 \$223 million. Revenue losses in FY10 would be \$57 million, reflecting the 1% tax rate current law imposes on these sales in that and subsequent years.

This analysis assumes that the bill eliminates (by exclusion from the definition of the tax base) the entire statewide sales tax imposed on these sales, including the 0.03% Tourism Promotion District tax rate imposed in R.S. 51:1286. Thus, the revenue losses resulting from this bill are shared by the State and the Tourism Promotion District during FY07-FY09. The effect of this bill only applies to the state general fund in FY10 and beyond because only the 1% State tax levied in R.S. 47:321 is in effect after FY09.

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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Legislative Fiscal Officer