



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 54** SLS 051ES 111  
Bill Text Version: **ORIGINAL**  
Opp. Chamb. Action:  
  
Sub. Bill For.:  
Proposed Amd.: **w/ PROP SEN COMM AMD**

<b>Date:</b> November 10, 2005 12:44 PM	<b>Author:</b> ELLINGTON
<b>Dept./Agy.:</b> Revenue	
<b>Subject:</b> Limit Sales Tax On Natural Gas For Paper & Wood Manu.	<b>Analyst:</b> Greg Albrecht

TAX/SALES

OR -\$6,700,000 GF RV See Note

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Provides for a state sales and use tax limitation on the sales price and cost price of natural gas.

Current law imposes 3.8% state sales and use tax on natural gas purchased for nonresidential energy use through June 30, 2009. After that date a 1% tax rate is imposed on these purchases.

Proposed law limits the sales price and the cost price of natural gas to amounts up to \$6.20/MMBtu for paper or wood products manufacturing facilities. This effectively eliminates state sales tax on the value of natural gas in excess of \$6.20/MMBtu for these facilities. In addition, for these facilities, the bill completely eliminates the sales tax on their purchases or use of electric power.

Effective January 1, 2006.

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

REVENUES	2005-06	2006-07	2007-08	2008-09	2009-10	5 -YEAR TOTAL
State Gen. Fd.	(\$6,700,000)	(\$9,400,000)	(\$8,400,000)	(\$6,800,000)	(\$1,600,000)	<b>(\$32,900,000)</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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<b><u>\$0</u></b>
Annual Total	<b>(\$6,700,000)</b>	<b>(\$9,400,000)</b>	<b>(\$8,400,000)</b>	<b>(\$6,800,000)</b>	<b>(\$1,600,000)</b>	<b>(\$32,900,000)</b>

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

The estimated revenue losses from the combined tax reductions provided by this bill to paper and wood products manufacturing facilities is \$6.7 million in second half of FY06, \$9.4 million in FY07, \$8.4 million in FY08, \$6.8 million in FY09, and \$1.6 million in FY10.

The LSU Center For Energy Studies (CES) provided an analysis that allows an estimate of the fiscal impact of this bill. The CES estimated the volumes of natural gas used for energy purposes in 17 industries. These volumes were projected into future periods and multiplied by the projected prices, currently utilized in the official revenue forecast, (FY06:\$10.00/mcf, FY07: \$8.00/mcf, FY08: \$7.53/mcf, FY09: \$6.75/mcf, FY10: \$6.40/mcf) without the value limitation of this bill to determine the estimated total expenditures subject to state sales tax. This same calculation is done with the value limitation of this bill to determine the estimated total expenditures subject to state sales tax under this bill. Both of these sales-taxable expenditure estimates are multiplied by the 3.8% sales tax in effect. The difference in these two sales tax estimates for the paper and allied products and lumber and wood products industries is the effect of this bill with regard to natural gas. Revenue losses from the price cap on natural gas are \$2.1 million in second half of FY06, \$1.9 million in FY07, \$1.3 million in FY08, \$0.4 million in FY09. This method results in no revenue loss estimated for FY10 because the projected average price for that year is slightly less than the price cap. However, revenue losses will occur in FY10 because some periods of the year will exhibit prices greater than the average projected, and in those periods revenue losses will occur.

Revenue losses associated with the complete exemption of sales tax on electric power used by these industries are estimated by noting that aggregate historical sales tax collections data suggest that taxes from electric power tend to be some 78% of the taxes from natural gas energy. Assuming that relationship applies to these industries, a complete exemption from the sales tax on electric power used by these industries results in estimated revenue losses of \$4.6 million in second half of FY06, \$7.5 million in FY07, \$7.1 million in FY08, \$6.4 million in FY09, and \$1.6 million in FY10 (at the 1% tax rate currently scheduled for that year).

SenateDual Referral Rules

House

☐ 13.5.1 >= \$500,000 Annual Fiscal Cost

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

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

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

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