LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **HB 159** HLS 051ES 516

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Sub. Bill For.: **REVISED**

Proposed Amd.:

Date: November 15, 2005 8:54 AM

Author: HEBERT

Dept./Agy.: Revenue

Subject: Sales tax refund on autos destroyed by natural disaster

Analyst: Robert E. Hosse

TAX/SALES-USE, STATE OR -$27,000,000 GF RV See Note

Authorizes refunds for sales taxes paid on certain automobiles destroyed by a natural disaster

Present law, R.S. 47:315.1(A), provides for a refund of state sales tax paid on tangible personal property used in or about a person's home, apartment, or homestead and which is destroyed by a natural disaster occurring in an area of the state determined by the president of the United States to warrant assistance by the federal government. Present law specifically provides that an owner of such property who paid the Louisiana sales tax be entitled to reimbursement of the amount of the tax paid on the property destroyed for which no reimbursement was received by insurance or otherwise. Proposed law would include automobiles as being eligible for such reimbursement.

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	$0	$0	$0	$0	$0	**$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.	($27,000,000)	($18,000,000)	$0	$0	$0	**($45,000,000)**
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	**($27,000,000)**	**($18,000,000)**	**$0**	**$0**	**$0**	**($45,000,000)**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Based on information from the Department of Revenue and the Department of Insurance, the proposed legislation is estimated to result in a decrease in State General Fund revenue of between $40 million to $50 million. This loss is likely to primarily occur over FY06 and FY07. The LFO does not know how quickly refunds will be made, but for illustration purposes in the above table 60% of the midpoint of this estimated range is assumed to occur in FY06 and 40% is assumed to occur in FY07.

The department has cited information that State Police would catalog more than 300,000 Louisiana flooded vehicles in a database when completed. According to data published by the NADA, new vehicle sales accounted for 58.6% of total sales for dealerships in 1997, increasing to 59.6% in 2002. Used vehicles accounted for 29% in 1997, decreasing to 28.6% in 2002. The remainder of total sales (approximately 10%) was attributed to service and part sales. This would imply as much as 66% new vehicles and 33% used vehicles. According to a J.D. Power article published in July 2004, the average price consumers paid for a new vehicle in June 2004 was $25,206 and the average paid for a used vehicle was $15,568. In 2000, the Department of Insurance estimated that 22% of motorists in Louisiana were uninsured. The department assumed that 22% of both new and used vehicles were uninsured, that if any insurance proceeds were received that the owner was not eligible for the refund, that average prices quoted by J.D. Power and Associates remained constant for affected vehicles, and that the estimate includes all vehicles not just automobiles. Based on the above information, the department estimates that SGF revenue would decrease by approximately $58 million. This impact is calculated as follows: (300,000 vehicles X 22% =66,000; 66,000 X 66% new vehicles = 43,560; 43,560 X $25,200 = $1,097,712,000; $1,097,712,000 X 4% = $43.9 million) + (66,000 X 34% used vehicles = 22,400; 22,400 X $15,568 = $349,345,920; $349,345,920 X 4% = $13.97 million) = $57.87 million.

If it is assumed that only 12% of newer vehicles were either uninsured or did not carry comprehensive insurance and 41% of used vehicles were either uninsured or did not carry comprehensive insurance, and otherwise based on the above information, State General Fund revenue would decrease approximately $50 million. This impact is calculated as follows: (300,000 vehicles X 66% = 198,000 new vehicles; 198,000 new vehicles X (Continued on page 2)

Senate	Dual 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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CONTINUED REVENUE EXPLANATION from page one:

12% uninsured = 23,760 uninsured; 23,760 X $25,200 = $598,752,000; $598.75 million X 4% = $23.95 million) + (300,000 vehicles X 34% = 102,000 used vehicles; 102,000 used vehicles X 41% uninsured = 41,820 uninsured; 41,820 X $15,568 = $651,053,760; $651 million X 4% = $26 million) = $49.95 million. The LFO assumes $50 million to be a reasonable maximum loss from this legislation. If it is further assumed that only 80% of eligible owners actually receive reimbursement, then the loss could be closer to $40 million.

The Department of Insurance indicated that there was no definitive information to accurately estimate the number of vehicles that would either be uninsured or would not carry comprehensive insurance. However, the department did indicate that figures for pre-accident uninsured implied as many as 18% of vehicles were uninsured and that post-accident figures suggest that 8-10% failed to carry liability insurance.

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