LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: **SB 96** SLS 051ES 403

Bill Text Version: **REENGROSSED**

Opp. Chamb. Action:

Sub. Bill For.:

Proposed Amd.:

Date: November 20, 2005 2:49 PM

Author: SHEPHERD

Dept./Agy.: Revenue

Subject: Sales Tax Holiday December 6 through the 11th, 2005

Analyst: Robert E. Hosse

TAX/SALES RE -$19,300,000 GF RV See Note

Provides that the state sales or use tax shall not apply to consumer purchases of tangible personal property for non-business use of $50,000 or less on December 17th. (gov sig)

Proposed law would provide for a voluntary (for dealers) state sales tax holiday between 3 p.m. December 6, 2005 and midnight December 11, 2005. The bill specifically exempts from state sales tax on those days consumer purchases of tangible personal property for non-business use. "Consumer purchases" are defined as purchases of items of tangible personal property, other than vehicles subject to license and title, costing $25,000 or less per unit, and which are not for use in a trade, business or profession. Proposed law provides for 3 day notification of the Department of Revenue by those retailers not participating in the holiday, and public notice signs to be displayed by non-participating retailers. Proposed law provides for the reimbursement of retail dealers who must make adjustments to their cash registers due to the holiday at a rate of $50 per cash register. Effective upon governor's signature.

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.	($19,155,250)	$0	$0	$0	$0	**($19,155,250)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	($144,750)	$0	$0	$0	$0	**($144,750)**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($19,300,000)**	**$0**	**$0**	**$0**	**$0**	**($19,300,000)**

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Proposed legislation is estimated to result in a decrease in State General Fund revenue (SGF and Tourism District combined) of approximately $19.3 million in FY06.

According to the Department of Revenue, general sales tax collections in December 2004 totaled $184,177,000 or an average daily amount of $5,941,200. The department further compared census data to the department's collections data, which implied that approximately 40% of the daily sales tax collections were attributable to subsectors which would be impacted by this legislation such as furniture and home furnishings, electronics and appliances, building materials and garden equipment, health and personal care, clothing and accessories, sporting goods, books, music store merchandise, general merchandise, and non-store retailers. The LFO assumes that 92% to 94% of the items purchased in these subsectors have a selling price of $25,000 or less, normal sales activity for items $2,500 and less would double on a single-day sales tax holiday and would reflect the equivalent of nine shopping days during a six day period, the percentage of non-business retail sales increased to 75% during the sales tax holiday, that purchases of items greater than $2,500 and no more than $25,000 would reflect as much as an additional four to five days of purchases beyond the nine shopping days assumed for items $2,500 or less, and that taxpayers taking advantage of the holiday would primarily purchase items within the retail subsectors identified. This legislation would allow for state sales tax free purchases of higher priced jewelry, big screen or high definition televisions, high end computers, and other high end merchandise. Based on this information and assumptions, the LFO estimates that the state sales tax free purchase of the identified subsectors would result in a State General Fund revenue loss of approximately $15 million. The calculation is made as follows: (((((average daily affected sales of $56,742,000) X .75 nonbusiness retail sales) X .93 for percentage equal to or less than $25,000) X .04) X 9) = $14.3 million) + ($700,000 attributable to an assumed 4 to 5 additional shopping days for items between $25,000 and $2,500) = $15 million. Although the potential value of items subject to the holiday would add some uncertainty to the estimate, the LFO believes that the preponderance of sales will be for items less than $2,500.

According to the Department of Revenue, tangible personal property would also include food and beverages prepared in restaurants and bars. Annual sales from these establishments are anticipated to be approximately (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 EXPLANATION from page one:

CONTINUED REVENUE EXPLANATION from page one:

15% of the subsectors used above to estimate those per day sales. If restaurant and bar sales are included in the sales tax holiday, another $1.3 million ($1.45 million X .15 X 6 days) decrease in state funds is estimated.

Proposed law additionally provides for the reimbursement of retail dealers who must make adjustments to their cash registers due to the holiday at a rate of $50 per cash register. According to the Department of Revenue, the sales tax rate on food was decreased to 2%, then fully exempted on July 1, 2003. Per the department's line item reports, a total of $68,479 in credits were claimed for December 2002 and January 2003; but only $15,450 in credits were claimed in June 2003 and July 2003. Based on the level of credits claimed for the initial rate change, the $25 credit allowed for that rate change implied 2,739 registers. The credits claimed for the full exemption imply only 618 registers. The department has no explanation for the difference in credits claimed. However, those credits were allowed only for reprogramming costs invoiced to dealers by outside providers of services, but not for internal programming. The proposed legislation would allow for a $50 per register credit regardless of whether the adjustments made are done so internally or provided by outside providers. Using economic census data, the department has indicated that as many as 10,160 establishments may participate in the tax holiday. A portion of these would have been located in the New Orleans area. If 10% of those establishments were in the New Orleans area, 9,144 establishments may be affected and if 25% of those establishments were in the New Orleans area as few as 7,620 establishments may be affected. If 5% of those establishments choose not to participate as many as 8,686 to 7,239 may be affected. Assuming as few as 5 registers per establishment would yield credits of between $1.8 million to $2.2 million. The department believes that an average of 5 per establishment might be too low taking into account the number of registers that larger establishments might have in each location. Assuming 8 registers per establishment would yield credits between $2.8 million to $3.5 million. Based on this information and assumptions the impact of the credit for cash register adjustment could result in an additional decrease in SGF revenue of $2 million to $3.5 million. The LFO assumes $3 million as an approximate estimate. Cash register adjustment reimbursements are provided to retailers as a credit on their remittances. Thus, this cost to the state is realized as a reduction of sales tax collections

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