

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 225** HLS 07RS 18
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action: **W/ SEN FLOOR AMD**
 Proposed Amd.:
 Sub. Bill For.:

| | |
|---|------------------------------|
| Date: June 25, 2007 8:15 AM | Author: ST. GERMAIN |
| Dept./Agy.: Revenue | Analyst: Charley Rome |
| Subject: Hurricane Preparedness and General Sales Tax Holidays | |

TAX/SALES-USE-EXEMPT REF -\$24,000,000 GF RV See Note Page 1 of 2
 Authorizes an annual "sales tax holiday" for the purchase of certain hurricane-preparedness items or supplies and an annual Louisiana Sales Tax Holidays week in August. (gov siq)

Hurricane Preparedness Sales Tax Holiday: Proposed law provides for an annual "sales tax holiday" from Friday through Sunday during the last weekend of May each year. The proposed holiday includes state sales and use taxes on the first \$1,500 per item on purchases of certain hurricane-preparedness items or supplies. Proposed law defines "hurricane-preparedness items or supplies" as any of the following: (1) portable self-powered light sources. (2) portable self-powered radios. (3) tarpaulins or covers. (4) ground anchor systems or tie-down kits (5) gas or diesel fuel tanks. (6) batteries, excluding automobile and boat batteries. (7) cell phone batteries and chargers. (8) nonelectric food storage coolers. (9) portable generators. (10) "storm shutter devices". (11) carbon monoxide detectors. (12) blue ice products. Proposed law prohibits supplies purchased at airports, public lodging establishments, and entertainment complexes. Proposed law provides for the tax treatment of exempt items sold in sets, promotional sales, exchanges, layaways, rainchecks, and rebates. The bill prohibits hurricane-preparedness items or supplies purchased at convenience stores from the proposed sales tax exemption.

| EXPENDITURES | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 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> | <u>\$0</u> |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

| REVENUES | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 5 -YEAR TOTAL |
|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| State Gen. Fd. | (\$24,000,000) | (\$24,000,000) | (\$24,000,000) | (\$24,000,000) | (\$24,000,000) | (\$120,000,000) |
| 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| Annual Total | (\$24,000,000) | (\$24,000,000) | (\$24,000,000) | (\$24,000,000) | (\$24,000,000) | (\$120,000,000) |

EXPENDITURE EXPLANATION

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

REVENUE EXPLANATION

Hurricane Preparedness Sales Tax Holiday: The proposed legislation may decrease state sales taxes by an estimated maximum amount of \$3 million per year in Fiscal Year 2007-08 and each year thereafter. As a model of the potential revenue loss, the Legislative Fiscal Office looks to analysis done by the Department of Revenue after the 2005 sales tax holiday (three days in December 2005 authorized by Acts 9 of the 2005 1st Ex Session). That analysis estimated that state sales tax revenues were reduced by approximately \$11-\$12 million during the three-day holiday. The sales tax holiday in 2005 was different from this bill in some important areas. The sales tax holiday in 2005 applied to the first \$2,500 of the sales or cost price of consumer purchases of tangible personal property. The limit per item in this bill is \$1,500 which likely decreases the potential revenue losses to state government compared to the 2005 holiday. However, much of the 2005 purchases were likely well below that \$2,500 amount. Furthermore, this bill limits purchases to specific hurricane preparedness items and excludes purchases from convenience stores. These limitation in the proposed bill would also likely decrease the potential revenue losses to the state compared to the 2005 sales tax holiday. Additionally, the 2005 sales tax holiday allowed sales tax exemptions for certain businesses located in a Hurricane Katrina or Hurricane Rita areas, provided that the businesses received a Sales Tax Holiday Exemption Certificate. This bill has no such provisions. The revenue loss associated with the business purchase provision in the 2005 holiday was estimated by the Louisiana Department of Revenue to total approximately \$3 million, leaving \$9 million of nonbusiness related sales tax loss.

Given the lower pricing threshold, the exclusion of convenience store sales, and the limited set of items eligible for exemption, and assuming adequate compliance and enforcement, the state revenue loss associated with this proposal might be more reasonably in the \$3 million range.

It should be noted, however, that it will likely be a difficult task for the Department of Revenue to adequately enforce strict compliance with the bill's provisions concerning the type of items eligible for exemption and the type of establishment selling them. Thus, actual revenue losses could more readily approach or exceed the maximum revenue loss estimate for this tax holiday.

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:

Week long sales tax holiday in August - Bill Summary: Proposed legislation would also provide for a state sales tax holiday each year from Sunday through Saturday of the week in which the first of August occurs. The bill specifically exempts from state sales tax the first \$2,500 of the sales price or cost price of any consumer purchases of tangible personal property. "Consumer purchases" are defined as items of tangible personal property, other than vehicles subject to license and title. Consumer purchases also do not include the purchase of meals furnished for consumption on the premises where purchased, including to-go orders.

Week long sales tax holiday in August - Revenue Explanation: The proposed legislation may decrease state general fund revenues by an estimated \$21 million per year. The Department of Revenue conducted an analysis after the 2005 sales tax holiday and estimated that the state sales tax revenues were reduced by approximately \$11 million to \$12 million during the three-day holiday. However, the 2005 sales tax holiday allowed sales tax exemptions for certain businesses located in a Hurricane Katrina or Hurricane Rita areas. This tax credit is not allowed by this current proposal. The revenue loss associated with the business purchase provision and the storm effect may be some \$3 million (25%) over the three-day holiday. Therefore, \$3 million is subtracted from the \$12 million tax revenues loss during the last three-day sales tax holiday, to provide a \$9 million estimated sales tax loss for each year of the holiday proposed by this bill. Removing this provision for businesses reduces the daily state sales tax losses for the 2005 holiday to \$3 million. From this information, it is estimated the proposed week-long sales tax holiday is likely to expose the state to a sales tax revenue loss of \$21 million in FY 2007-08 (\$3 million per day X 7 days).

It is possible that revenue losses per day would decrease as the number of tax holiday days increases. However, the holiday proposed by this bill is likely to be much better known to consumers than the December 2005 holiday because much more time will be available prior to its start for it to be advertised. In addition, this bill's holiday is held during a period that is typical in a number of other states, reinforcing the likelihood of consumer awareness. Thus, the estimate of the revenue loss associated with this holiday a simple extrapolation of the estimated loss associated with the December 2005 holiday.

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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