

LEGISLATIVE FISCAL OFFICE

Fiscal Note



Fiscal Note On: **HB 225** HLS 07RS 18
 Bill Text Version: **ENROLLED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: July 13, 2007 9:39 AM	Author: ST. GERMAIN
Dept./Agy.: Revenue	Analyst: Charley Rome
Subject: Hurricane Preparedness and General Sales Tax Holidays	

TAX/SALES-USE-EXEMPT EN -\$2,500,000 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)

Provides for an annual "hurricane preparedness sales tax holiday" on Saturday and Sunday of the last weekend of May each year. State sales and use taxes are exempted on the first \$1,500 per item of certain enumerated hurricane-preparedness items or supplies defined as (1) portable self-powered light sources, (2) portable self-powered radios, (3) tarpaulins or other waterproof covers, (4) ground anchor or tie-down kits, (5) gas or diesel fuel tanks, (6) batteries, excluding auto 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, and (12) blue ice products. Not applicable to purchases at airports, public lodging establishments, entertainment complexes, and convenience stores.

Also includes in the manufacturing machinery & equipment sales tax phase-out recyclable material merchant wholesalers with shredding facilities (NAICS code 423930).
 Effective June 30, 2007.

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.	(\$2,500,000)	(\$2,250,000)	(\$2,100,000)	(\$2,000,000)	(\$2,000,000)	(\$10,850,000)
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	(\$2,500,000)	(\$2,250,000)	(\$2,100,000)	(\$2,000,000)	(\$2,000,000)	(\$10,850,000)

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 \$2 million per year. 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 certain locations including 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, state revenue loss associated with this proposal might be more reasonably in the \$2 million maximum 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.

Machinery & Equipment sales tax phase-out for recyclable material merchant wholesalers: Revenue losses from this component of the bill are expected to be relatively small; possibly a few hundred thousand dollars initially if large purchases are made and less in later periods even as the tax rate completely phases out but lower normal levels of expenditures occur. See discussion 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

Gregory V. Albrecht
 Chief Economist

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CONTINUED EXPLANATION from page one:

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Machinery & Equipment sales tax phase-out for recyclable material merchant wholesalers:

State general fund revenues will decrease by an unknown amount due to these provisions. The Department of Revenue does not separately capture the data for this industry so is unable to determine the amount of the loss. Through the U.S. Census Bureau's 2002 Economic Census of Wholesale Trade in Louisiana, the Department was able to point out that the revenue of NAICS Industry 423930 in Louisiana in 2002 were nearly \$299 million.

According to proponents of these provisions, the requirement for a firm within this industrial code to have shredding facilities limits this bill to 3 businesses in the state. Machinery & equipment purchases by these entities would be eligible for the sales tax exemption currently be phased in for manufacturing machinery & equipment. In FY08, the state sales & use tax rate on these purchases will be 46% of the full 4% levy and will be completely eliminated by FY11. Barring substantial purchases of large pieces of equipment, the limitation to only 3 entities suggests relatively small revenue losses from this bill. However, the proponents also indicate that one of the entities benefiting from this bill is located in the New Orleans area and suffered material damage from hurricane Katrina. Thus, substantial expenditures eligible for this tax reduction could be made. Revenue losses are still expected to be relatively small; possibly a few hundred thousand dollars initially if large purchases are made and less in later periods even as the tax rate completely phases out, but lower normal levels of purchases occur

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