

**LEGISLATIVE FISCAL OFFICE**  
**Fiscal Note**



Fiscal Note On: **SB 206** SLS 17RS 464  
 Bill Text Version: **ENGROSSED**  
 Opp. Chamb. Action:  
 Proposed Amd.:  
 Sub. Bill For.:

<b>Date:</b> May 10, 2017 9:46 AM	<b>Author:</b> MORRELL
<b>Dept./Agy.:</b> Revenue	<b>Analyst:</b> Greg Albrecht
<b>Subject:</b> Terminates Tax Exemptions, Exclusions, Deductions	

TAX/TAXATION EG INCREASE GF RV See Note Page 1 of 1  
 Terminates certain tax exemptions and deductions in 2021. (8/1/17)

Proposed law terminates numerous deductions/exclusions/exemptions from corporate income and franchise tax, severance tax, sales tax, alcoholic beverage tax, petroleum products tax, inspection and supervision fees, and the hazardous waste tax effective for taxable periods beginning on and after January 1, 2021 and 2022. All exemptions from the state sales tax are terminated January 1, 2018.

<b>EXPENDITURES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
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>
<b>Annual Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>REVENUES</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>5 -YEAR TOTAL</b>
State Gen. Fd.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
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>
<b>Annual Total</b>						

**EXPENDITURE EXPLANATION**

The Dept. of Revenue will incur costs associated with designing, modifying, and testing the tax processing system. These costs are typically estimated in the tens of thousands of dollars of staff time (initially \$40,000 in this case, then substantially more in preparation for 2021 and 2022). An assessment of the cumulative need resulting from all legislation is made at the end of session which informs the budget request of the Dept.

**REVENUE EXPLANATION**

Most of the deductions/exclusions/exemptions from corporate income and franchise tax, severance tax, sales tax, alcoholic beverage tax, petroleum products tax, inspection and supervision fees, and the hazardous waste tax that are terminated for taxable periods beginning on and after January 1, 2021 and 2022 by the bill are unknown as to their fiscal effect due to the lack of reporting requirements contained in their statutory provisions. Of the few that do report information, the effect of the bill is dominated by three items: the net operating loss (\$156M) and subchapter-S corporation (\$572M) deductions from the corporate income tax, and various severance tax exemptions as a group (\$155M). Figures are estimated FY18 revenue losses from the Dept. of Revenue Tax Exemption Budget. However, annual revenue effects from termination for taxable periods beginning on and after January 1, 2021 and 2022 would likely differ considerably from these estimates as an accumulating increase in net state tax receipts in FY22 and beyond would likely occur as returns for tax years 2021 and beyond are filed. Typically, a three fiscal year or more transition is required to fully reflect changes that begin with a tax year. Also, severance tax refunds are claimed on future returns for exempt production, delaying the revenue effects of those terminations, as well.

The Dept. has only recently been attempting to collect information on formerly exempt transactions now subject to various levies of tax. That effort is still in its infancy and taxpayer reporting has been inconsistent. A reasonable estimate of the revenue to gain by the blanket elimination of all sales tax exemptions can not be made, but is likely to be substantial depending on the rate of taxation. The Dept. indicates that the largest sales tax exemptions affected by the bill are likely to be nonresidential utilities, and medical devices. As a group these two sets of transactions would likely generate in excess of \$350 million or more at a 4% tax rate.

Senate Dual Referral Rules  
 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}  
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House  
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}  
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

*John D. Carpenter*  
**John D. Carpenter**  
**Legislative Fiscal Officer**