LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 53** HLS 161ES 117
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: February 21, 2016 10:03 PM
Author: ABRAMSON
Dept./Agy.: Revenue
Subject: Repeals inventory tax and dedicates .5% new sales tax
Analyst: Deborah Vivien

TAX/SALES-USE, STATE OR SEE FISC NOTE GF RV

To establish a framework upon which to repeal the property tax on business inventories and offshore vessels as well as the state income tax credits associated therewith through the repeal of a state sales and use tax, the levy of a limited, temporary

Current law imposes a 4% state sales and use tax on sales of tangible personal property and certain services with specific exemptions and exclusions. A statutory dedication of 0.4% of remittances with $2M to the Marketing Fund and the remainder to the LA Economic Development (LED) Fund are required. Business utilities are taxed at 1% for 2015-16 fiscal year. A refundable state income tax credit is authorized for 72% of the amount of the inventory on property and vessels paid o local taxing authorities.

Proposed law repeals 1% state sales tax(permanent penny) then levies a new 0.5% state sales tax on a larger base than the permanent penny. The bill also increases the base for the 2% levy of the remaining sales tax but leaves the remaining 1% (.097% imposed by state and 0.3% by the Tourism Promotion District) virtually the same. The bill is effective upon elimination of the inventory tax on property and vessels (local tax), which will require a constitutional amendment (CONTINUED on page 2)

EXPENDITURES	2016-17	2017-18	2018-19	2019-20	2020-21	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	2016-17	2017-18	2018-19	2019-20	2020-21	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**

EXPENDITURE EXPLANATION

Without voter approval of a constitutional amendment eliminating the inventory tax on property and vessels, there is no anticipated direct material effect on governmental expenditures as a result of this measure. With approval of an amendment, the Department of Revenue and Treasury indicate that any expense related to this bill will be absorbed in the current budget. However, implementation will require a substantial effort to change forms, systems and provide customer service for such an extensive change to a multitude of items that were not previously taxed and others with a tax rate increase. Costs and human resources required for implementation could be significant.

REVENUE EXPLANATION

The bill is predicated upon voter approval of a constitutional amendment eliminating the inventory tax on property and vessels, which is not proposed at this time. Thus, enactment of this bill will have no revenue impact. Assuming an adopted constitutional amendment eliminating the inventory property tax, a first pass analysis of this bill could look like:

SGF		
Repeal of 1% (permanent penny)	(781.0)	FY 15 actuals/4
Expansion of 2% base	240.0	120*2 from HB 62
Reduction of LED Fund dedication	6.2	
New 0.5% on clean base (incl vehicles)	0.0	
Elimination of Inventory Tax Credit	400.0	
SGF Net impact	-134.8	
Statutory Dedications		
New 0.5% on clean base to locals	455.0	[(692+99)/2]+60 from HB 62
Reduction of LED Fund dedication	(6.2)	
Hotel/Motel no longer dedicated	(30.0)	
Statutory Dedication Net Impact	413.8	
Locals		
Elimination of Inventory Tax	(500.0)	
New 0.5% on clean base to locals	455.0	
Hotel Motel Dedication	(30.0)	
Net to Locals	-80.0	

(CONTINUED on page 2)

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Chief Economist

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CONTINUED EXPLANATION from page one:

Bill Summary
(continued from page 1)
presumably on the November 2016 ballot. It is not clear whether inventory tax credits in the pipeline will be authorized or if all claims will be eliminated on a date certain. All proceeds of the new 0.5% sales tax are dedicated through the Inventory Tax Phase-Out Fund (created by this bill) to the local taxing authorities based on the percentage of 2014 inventory taxes paid across the state to be distributed locally by the local aggregate 2014 percentages. The dedication of 0.4% to the LED Fund is removed from all but 1% of state sales tax remittances. Any other sales tax proceeds continue to flow to the state general fund. The exemption for tickets for live performances sold by Ballet Organizations is repealed.

REVENUE EXPLANATION (continued from page 1)

Certain items previously exempt that would be taxable under this bill (add for aggregate impact):

	0.5% on Clean Base ($ Millions)	Expansion of the 2% Base
	Annual	**Annual**
MM&E	10.0	40.0
Business Utilities	30.0	120.0
Hotel/Motel	5.0	20.0
Certain Trucks and Trailers	2.5	10.0
Sales Tax Holidays	1.0	4.0
Other (Assuming 10%)	11.5	46.0
TOTAL	60.0	240.0

This analysis is perfunctory and highly dependent upon the value of the inventory tax/credit, which is unknown due to significant changes to the payment mechanism during the 2015 Regular Session on returns not yet filed. The value is assumed at $400M for this analysis but could change the net results significantly if it varies. <u>The analysis also assumes that the repeal of the inventory tax immediately halts all credit claims in the pipeline, including carryforwards, amended returns, etc. The elimination of the credit without further legislation will phase out over time and further reduce the SGF revenue until the pipeline credits are eliminated.</u>

All of the figures in the note are preliminary due to the expedited analysis of a complex multi-faceted issue. Further analysis and adoption of an associated constitutional amendment bill could result in material revisions of this analysis.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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