



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 62** HLS 161ES 44
 Bill Text Version: **REENGROSSED**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

Date: February 28, 2016 11:34 AM	Author: JACKSON
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: New Penny State Sales and Use Tax	

TAX/SALES-USE, STATE RE +\$874,700,000 GF RV See Note Page 1 of 2
 Impose a one cent sales and use tax (Item #9)

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.

Proposed law levies an additional 1% state sales and use tax on sales of tangible personal property and certain services with specific exemptions and exclusions. Items that are not taxable under the original 4% state sales tax but are taxable under the proposed 1% sales tax include: Business utilities and purchases during sales tax holidays, among many other transactions. The dedication to the Marketing Fund and LED Fund are retained for original 4% but not the 1% in the bill. Effective upon signature for taxable periods beginning April 1, 2016 and ending October 1, 2017.

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.	\$878,300,000	\$218,700,000	\$0	\$0	\$0	\$1,097,000,000
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	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$878,300,000	\$218,700,000	\$0	\$0	\$0	\$1,097,000,000

EXPENDITURE EXPLANATION

The Department of Revenue indicates 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

With sales tax collections currently showing little growth over last year, FY 15 actual figures from the Tax Exemption Budget (or the REC forecast for Business Utilities) will serve as an estimate for an annual impact to state revenues with respect to currently taxed transactions. These data sources suggest that state revenue will increase in FY17 due to these major factors (\$ millions):

	Annual	FY 16*	FY 18 (3 months)
1% on Current Taxable Base	790.7	197.7	
1% on New Taxable Base	86.5	15.6	
1% on Hotels	9.3	2.3	
Vendor's Compensation	(-8.2)	(-2.1)	
GROSS Collections	878.3	213.5	219.6
less: Dedication of 0.4% to LED Fund	(0.0)	(0.0)	(0.0)
NET Collections	878.3	213.5	219.6

1% on New Taxable Base (\$ Millions)

	Annual	FY 16*
MM&E	0.0	0.0
Business Utilities	60.0	15.0
Certain Trucks and Trailers	0.0	0.0
Vehicle Rentals	0.0	0.0
Manufactured Homes	0.0	0.0
Sales Tax Holidays	1.3	0.0
Tax Free Shopping	0.0	0.0
Other (Assuming 10%)	22.6	0.0
1% Base	2.6	0.6
TOTAL	86.5	15.6

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| <p><u>Senate</u> <u>Dual Referral Rules</u> <u>House</u></p> <p><input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}</p> <p><input checked="" type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}</p> | <p><input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}</p> <p><input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}</p> |
|---|--|

John D. Carpenter
 Legislative Fiscal Officer

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CONTINUED EXPLANATION from page one:
Revenue Summary (Continued from page 1)

*These estimates imply a full quarter of unprotested collections based on an annualized amount. Actual collections could be lower, especially in the first months of implementation as compliance improves. The category of "Other" sales is assumed at zero for the first three months. The first FY 16 collections affected by this bill will be due May 20. Any error inherent in the base figures are also carried into this estimate, which increases uncertainty. FY 18 is one quarter of the annual estimate.

Note: The note has been revised to include the MM&E exemption and expiration date as amended on the House Floor. Upon further analysis of the bill, it was determined that Certain Trucks and Trailers remain exempt. In addition, a miscalculation in the 1% Base was corrected from 7.8 to 2.6. Also, the LED Fund does not receive a dedication from the new penny in the bill. All of the revisions related to taxation were removed from the expanded base.

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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Handwritten signature of John D. Carpenter.

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