

LEGISLATIVE FISCAL OFFICE

Fiscal Note

ACT 26

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



Date: March 30, 2016 7:13 PM	Author: JACKSON
Dept./Agy.: Revenue	Analyst: Deborah Vivien
Subject: New 1% State Sales and Use Tax	

TAX/SALES-USE, STATE EN +\$880,600,000 GF RV See Note Page 1 of 1
 Impose a one cent sales and use tax (Item #9)

Current law imposes a 4% statewide sales and use tax on sales of tangible property and certain services with specific exemptions and exclusions. 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 the 2015-16 fiscal year. New law levies an additional 1% state sales and use tax on sales of tangible property and certain services with specific exemptions and exclusions from 4/1/16 through 7/1/18 for most items. Items that are not taxable under the original 4% state sales tax but are taxable under this additional 1% sales tax include: business utilities, purchases during sales tax holidays, manufacturing machinery and equipment (MM&E) until 7/1/16 for most (including agriculture MM&E which is taxable on purchases over \$50,000), among many other transactions. The new levy is not eligible for refund through Tax Free Shopping. The LED dedication is not applicable to this additional 1% levy. Vendor's compensation is unchanged. Effective upon governor's signature for taxable periods beginning April 1, 2016 and ending July 1, 2018.

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.	\$880,600,000	\$880,600,000	\$0	\$0	\$0	\$1,761,200,000
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	\$880,600,000	\$880,600,000	\$0	\$0	\$0	\$1,761,200,000

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 transactions taxed under this bill. These data sources suggest that state revenue will increase due to these major factors (\$ millions):

	Annual	FY 16*
1% on Current Taxable Base (General)	691.7	172.9
1% on Current Taxable Base (Vehicle)	99.0	24.8
1% on New Taxable Base	88.8	16.3
1% on Hotels (not dedicated)	9.3	2.3
Vendor's Compensation	(8.2)	(2.1)
GROSS Collections	880.6	214.2
less: Dedication of 0.4% to LED Fund	(0.0)	(0.0)
NET Collections	880.6	214.2

*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 before compliance improves. The category of "Other" sales is assumed at 10% of its reported value due to substantial uncertainty historically associated with its contents, and is where REC and final LDR interpretation discrepancy is reflected. The first FY 16 collections affected by this bill will be due May 20. Error in the base figures for currently nontaxable transactions increases uncertainty associated with the overall estimate of the bill. In addition, actual collections could be materially affected by taxpayer behavior that can be different in response to temporary taxation versus permanent taxation.

For more detail on taxable transactions, please see <http://www.rev.state.la.us/SalesTax/SalesTaxRates>

Note: This bill allows vendor's compensation for the additional penny, which is a general fund reduction in the fiscal impact of \$2.1M in FY 16 and \$8.2M in FY 17. However, Act 15 of this session disallows vendor's compensation for any sales tax other than the original 4% imposition, and the estimate for that Act contains this fiscal impact for REC purposes.

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

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