STATE OF LOUISIANA
Legislative Fiscal Office
BATON ROUGE

Post Office Box 44097
Capitol Station
Baton Rouge, Louisiana 70804
Phone: 225.342.7233

Alan M Boxberger
Legislative Fiscal Officer

TO: The Honorable Phillip R. DeVillier, Speaker of the House

FROM: Benjamin Vincent, Chief Legislative Economist
Alan M. Boxberger, Legislative Fiscal Officer

DATE: October 16, 2024

SUBJECT: Preliminary Analysis of Draft Legislation – Sales Tax:
Permanent 0.45% Levy; Permanent 2% Business Utilities Rate;
Exemption & Exclusion Base Restructuring

Summary

Expenditures	**2024-25**	**2024-25**	**2024-25**	**2024-25**	**2024-25**
State General Fund	$0	$0	$0	$0	$0
Self-Generated Revenues	+$200,000	$0	$0	$0	$0
Dedications/Other	$0	$0	$0	$0	$0
Federal Funds	$0	$0	$0	$0	$0
Local Funds	$0	$0	$0	$0	$0
Annual Total	$0	$0	$0	$0	$0

Revenues	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
State General Fund	Increase	Increase	Increase	Increase	Increase
Self-Generated Revenues	Increase	Increase	Increase	Increase	Increase
Dedications/Other	Increase	Increase	Increase	Increase	Increase
Federal Funds	$0	$0	$0	$0	$0
Local Funds	See Below	See Below	See Below	See Below	See Below
Annual Total (State Only)	**+$50,000,000**	**+$840,000,000**	**+$840,000,000**	**+$840,000,000**	**+$840,000,000**

Expenditure Explanation and Assumptions

LDR reports an anticipated one-time increase in programming, testing, and development costs of approximately $200,000 for modifications to returns, LDR software, and the web filing application. The agency anticipates no need for additional positions. Any expenditure increases would be financed via SGR out of current collections, ultimately reducing state general fund revenues mechanically.

Revenue Explanation and Assumptions

The proposal extensively modifies definitions applying to key sales tax base concepts, including definitions "tangible personal property", "person", "sale at retail", and "cost price". Significant portions of existing statute are removed from sections providing for exclusions, and significant portions are added or enacted to sections providing for exemptions. The apparent intent is to replace numerous exclusions with similar exemptions, while permanently repealing some current-law exemptions/exclusions. Additionally, the proposal requires certain exemption/exclusions to be applied at the local level, while also repealing certain exemption/exclusions.

Some major state-level provisions from the proposal are as follows:

- **Makes permanent the 0.45% levy in R.S. 47:321.1**
- **Subjects non-residential utilities generally to a 2% tax rate**
- **Repeals certain existing exemptions, retains certain constitutional exemptions in statute**
- Repeals 0.03% levy in R.S. 51:1286, expands 0.97% levy in R.S. 47:331 to 1%, and dedicates $30 million to LA Tourism Promotion District

Notable items not subject to taxation in the proposal include (but are not limited to) food for home consumption, fuels, residential utilities, and prescription drugs.

Impact of Partial-year Effectiveness on FY 25:

The proposal expands the base of taxable sales for several months of FY 25, causing a partial-year revenue increase. LFO estimates the magnitude of this effect as **approximately +$50 million**.

FY 26 and Subsequent Years:

LFO estimates the provision to **make permanent the 0.45% levy would cause a recurring increase in revenue collections of approximately $500 million** in FY26 and subsequent years. Additionally, taxing **non-residential utilities at 2% would likely increase revenues by approximately $230 million**.

The proposal additionally expands the permanent base of taxation. LDR has estimated a net revenue effect of the proposed base changes of +$188-$206 million, based on Tax Exemption Budget (TEB) data and projections.

A potential for overlap between Census, BEA, and TEB definitions generates the risk of double-counting for certain sales tax items, e.g. installation charges for tangible personal property ($42 million). LFO believes that estimates for such sales are already captured by expanding the list of taxable services, and should be excluded from this analysis. Additionally, for purchases of vehicles for lease or rental ($65 million), TEB data includes vehicles purchased for resale, which remains exempt under this proposal. LFO assumes that sales under the two exemptions are approximately equal, and that repealing only one of the exemptions will increase collections by $32 million instead of $65 million. LFO thus estimates that a **net impact of approximately +$110 million ($50 million in FY25) is likely due to the proposed tax base modifications**.

Impact on Local Revenues:

A detailed estimate on likely local revenue impacts due to this proposal, either at the statewide level or for any particular political subdivision, is unavailable for purposes of this analysis. Numerous local exemptions and exclusions are repealed, and numerous exemptions and exclusions are mandated by the proposal, making an overall impact unclear.

However, LFO notes a number of significant exclusions that are now mandated, including prescription drugs, purchases by government or other untaxable entities, certain food purchases, certain agricultural and medical exemptions, and certain MM&E purchases. In sum, these provisions would serve to materially reduce local sales tax revenues.

Several exemptions are repealed, which would serve to offset revenue losses to an unknown extent. Such repeals include notable items such as certain services such as repairs or installation services, certain purchases for lease or rental, admissions to certain events, sales of feminine hygiene products and diapers, and newspaper sales.

LFO additionally notes that other proposals to expand the sales tax base to services and digital products would serve to increase local revenues to an unknown extent. The net revenue impact on political subdivisions is unclear.