



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: HB 803 HLS 05RS 1303
Bill Text Version: ORIGINAL
Opp. Chamb. Action:
Sub. Bill For.:
Proposed Amd.:

Date: May 30, 2005 6:11 PM
Dept./Agy.: Revenue
Subject: Limit Sales Tax On Natural Gas
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TAX/SALES-USE, STATE OR -\$48,200,000 GF RV See Note Page 1 of 1
Provides for a state sales and use tax limitation on the sales price and cost price of natural gas

Current law imposes 3.8% state sales and use tax on natural gas purchased for nonresidential energy use through June 30, 2009. After that date a 1% tax rate is imposed on these purchases.

Limits the sales price and the cost price of natural gas to amounts up to \$4.50/MMBtu. This effectively eliminates state sales tax on the value of natural gas in excess of \$4.50/MMBtu.

Effective for tax periods beginning on or after July 1, 2005.

Table with 7 columns: EXPENDITURES, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2005-06, 2006-07, 2007-08, 2008-09, 2009-10, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION

The LSU Center For Energy Studies (CES) provided an analysis of the estimated fiscal impact of this bill. The CES estimated the volumes of natural gas used for energy purposes in 17 industrial categories. These volumes were projected into future periods and multiplied by projected prices without the value limitation of this bill to determine the estimated total expenditures subject to state sales tax. This same calculation is done with the value limitation of this bill to determine the estimated total expenditures subject to state sales tax under this bill. Both of these sales-taxable expenditure estimates are multiplied by the 3.8% sales tax in effect. The difference in these two sales tax estimates is the effect of this bill.

Certain adjustments were made to this analysis for purposes of this fiscal note. First, the bill expresses the price limitation in terms of MMBtu units while the CES analysis is provided in terms of MMcf units. Thus, the \$4.50/MMBtu price limitation in the bill translates to \$4.67/MMcf in the CES analysis. Second, for its projection purposes, the CES analysis averaged the spot price forecasts of the Legislative Fiscal Office (LFO) and the Department of Natural Resources (DNR), then added a transportation charge. According to DNR, these buyers of gas have been able to receive prices close to the spot price. Thus, the CES analysis was modified to utilize the lower of the two spot forecasts (DNR) and excluded the transportation charge. Third, unless changed by subsequent legislation, current law will impose only a 1% tax on these transactions beginning July 1, 2009. This means that the tax loss from the limitation provided by this bill in the last year of the fiscal note horizon is only 26.3% of the amount estimated with the CES analysis.

These estimates may understate the revenue losses resulting from this bill because the analysis is based on industrial users of gas only, while the bill provides a general limitation of the value of all natural gas for purposes of state sales taxation. Some amount of natural gas sold for energy purposes is purchased by other nonresidential entities (for example commercial entities for heating). These transactions would also, presumably, receive the benefit of the price limitation for sales taxation.

Senate Dual Referral Rules

13.5.1 >= \$500,000 Annual Fiscal Cost

[X] 13.5.2 >= \$500,000 Annual Tax or Fee Change

House

6.8(F) >= \$500,000 Annual Fiscal Cost

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease

H. Gordon Monk
Legislative Fiscal Officer