



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: SB 340 SLS 05RS 877

Bill Text Version: ORIGINAL

Opp. Chamb. Action:

Sub. Bill For.:

Proposed Amd.:

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TAX/SALES OR -\$10,100,000 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 and to phase-in the restoration of the sales tax exemption for 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.

Proposed law limits the sales price and the cost price of natural gas to amounts up to \$4.50/MMBtu within the definitions of the sales tax law, and phases out the current suspension of exemption that subjects natural gas to tax. Since the bill as a whole is effective July 1, 2005, the definitional change effectively eliminates the current 0.8% state sales tax levied in R.S. 47:331 on the value of natural gas in excess of \$4.50/MMBtu for the FY06 period. For the FY07 period an additional 1% of tax is removed (50% of the 2% levied in R.S. 47:302). For the FY08 period another 1% of tax is removed (50% of the 2% levied in R.S. 47:302). For the FY09 period and subsequent periods the last 1% of tax is removed (levied in R.S. 47:321). 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 estimated state revenue losses in each fiscal year, depicted in the table above, resulting from this bill are based on the analysis described below for an immediate and full elimination of sales tax on natural gas. The results of that analysis are translated to the phaseout provided by this bill on the basis of the ratio of the sales tax rate being phased out to the total 3.8% tax rate currently levied. The FY06 revenue loss is 21% of that year's full effect (0.8% tax rate of 3.8%), the FY07 loss is 47% of that year's full effect (1.8% tax rate of 3.8%), the FY08 revenue loss is 74% of that year's full effect (2.8% tax rate of 3.8%), and the FY09 revenue loss is 100% of that year's full effect (3.8% tax rate of 3.8%). In FY10 only 1% of tax would be levied under current law. Thus, only revenue associated with that level of taxation would be lost in that year.

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

Signature of H. Gordon Monk, Legislative Fiscal Officer