

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4782-01
Bill No.: HB 1749
Subject: Energy; Revenue Department; Taxation and Revenue; Utilities
Type: Original
Date: March 6, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund*	(Unknown)	(Unknown)	(Unknown)

* Could greatly exceed \$100,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various State Funds	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 4 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development - Public Service Commission** assume the proposal will not fiscally impact their agency.

Officials from the **Department of Revenue** assume the proposal has no administrative impact to their agency, however, it would have a potential significant unknown loss of revenue due to the expanded sales tax exemption.

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal would provide a state and local sales tax exemption for utilities used in manufacturing, processing, compounding, mining, or production.

This bill would have no impact on BAP, but will result in a substantial reduction in General Revenue.

2004 taxable sales data from the Department of Revenue for utility services totaled \$3.2 billion. This translates to state and local sales taxes of about \$204 million annually, using an average state tax rate of 4.225% and an average local sales tax rate of 2.225%.

ASSUMPTION (continued)

BAP notes that this figure does however include some local sales tax on domestic utilities which this bill does not cover, but also excludes some taxes on commercial and industrial usage addressed by this bill in instances where the local governments have opted not to impose a local sales tax.

Based upon the responses from the Department of Revenue and Budget and Planning, **Oversight** will assume the proposal will result in an unknown loss of revenue to the various sales tax funds. Oversight will assume this loss could greatly exceed \$100,000.

This proposal will decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Loss</u> – Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
OTHER STATE FUNDS			
<u>Loss</u> – School District Trust Fund Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
<u>Loss</u> – Conservation Fund Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
<u>Loss</u> – Parks and Soil Fund Sales Tax Exemption	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<u>Loss</u> – Local Sales Tax Revenues			
Sales Tax Exemption	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses that use utilities to manufacture, process, compound, mine or produce any product could be fiscally impacted from this proposal.

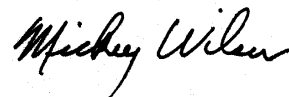
DESCRIPTION

This proposal authorizes an exemption from state and local sales and use tax for the cost of all utilities used in the manufacturing, processing, compounding, mining, or production of a product.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Department of Economic Development



Mickey Wilson, CPA
Director
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