

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2155-01  
Bill No.: SB 480  
Subject: Taxation and Revenue - Sales and Use; Utilities  
Type: Original  
Date: March 31, 2015

Bill Summary: This proposal would create a state sales and use tax exemption for utilities, equipment, and materials used to generate or transmit electricity.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$20,500,000)	(\$24,600,000)	(\$24,600,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$20,500,000)</b>	<b>(\$24,600,000)</b>	<b>(\$24,600,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
School District Trust	(\$6,834,000)	(\$8,200,000)	(\$8,200,000)
Conservation Commission	(\$854,000)	(\$1,025,000)	(\$1,025,000)
Parks, and Soil and Water	(\$683,000)	(\$820,000)	(\$820,000)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>(\$8,371,000)</b>	<b>(\$10,045,000)</b>	<b>(\$10,045,000)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would exempt from sales tax various inputs to the utilities industry. Those inputs include the utilities, chemicals, machinery, equipment, supplies, parts and materials used by that industry. BAP officials assume the use of the broad terms in the proposal would exempt most inputs to production for the utilities.

BAP officials stated that, according to the Input-Output Use Tables provided by the federal Department of Commerce, Bureau of Economic Analysis, inputs from commodities that could be qualified for this exemption are roughly 16% of the total output of the "utilities" industry. In addition, the Department of Revenue (DOR) reports that taxable sales of "utilities" in 2014 were about \$5,125.0 million. BAP officials concluded this proposal might exempt \$836.4 million (\$5,125.0 million x 16%) from sales tax, which would reduce Total State Revenues by \$35.3 million and General Revenue by \$25.1 million annually. BAP officials also noted actual losses may differ from this estimate if the actual output of the firms in question differs from the estimate of taxable sales reported by DOR, if some inputs are already exempt, or if the ratio of currently taxable inputs differs from that assumed for this analysis.

**Oversight** will use the BAP estimate of exempt sales, as adjusted. Oversight estimates the amount of currently taxable sales which would be exempted from tax by this proposal would be (\$5,125,000,000 x 16%) = \$820,000,000 and the sales tax on those sales would be as calculated in the following table. (Numbers are rounded for convenience.)

<u>Fund</u>	<u>First year impact (Ten months)</u>	<u>Full year impact</u>
General Revenue	\$20,500,000	\$24,600,000
School District Trust	\$6,834,000	\$8,200,000
Conservation Commission	\$854,000	\$1,025,000
Parks, and Soil and Water	\$683,000	\$820,000
Total	\$28,871,000	\$34,645,000

ASSUMPTION (continued)

**Oversight** assumes none of the inputs which would be subject to this exemption are motor vehicles, and there would be no impact on road funds from this proposal.

Officials from the **Department of Revenue (DOR)** assume this proposal would create an exemption for electrical energy and gas, water, coal, and energy sources, chemicals, machinery, equipment, parts and materials used and consumed in the generation, transmission, distribution, sale, or furnishing of electricity for light, heat, or power to customers. The legislation specifically excludes local sales tax from the exemption.

DOR officials stated they were unable to determine the exact fiscal impact to Total State Revenue; however, based on refund claims from companies in a similar industry, the Department estimates the impact may be between \$15 and \$30 million annually.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of the Secretary of State** and the **Department of Economic Development - Division of Energy, Office of Public Counsel, and Public Service Commission** assume this proposal would have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u>			
Sales tax exemption	<u>(\$20,500,000)</u>	<u>(\$24,600,000)</u>	<u>(\$24,600,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$20,500,000)</u></b>	<b><u>(\$24,600,000)</u></b>	<b><u>(\$24,600,000)</u></b>

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Revenue reduction</u>			
Sales tax exemption	<u>(\$6,834,000)</u>	<u>(\$8,200,000)</u>	<u>(\$8,200,000)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>(\$6,834,000)</u></b>	<b><u>(\$8,200,000)</u></b>	<b><u>(\$8,200,000)</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Revenue reduction</u>			
Sales tax exemption	<u>(\$854,000)</u>	<u>(\$1,025,000)</u>	<u>(\$1,025,000)</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION FUND</b>	<b><u>(\$854,000)</u></b>	<b><u>(\$1,025,000)</u></b>	<b><u>(\$1,025,000)</u></b>
<b>PARKS, AND SOIL AND WATER FUND</b>			
<u>Revenue reduction</u>			
Sales tax exemption	<u>(\$683,000)</u>	<u>(\$820,000)</u>	<u>(\$820,000)</u>
<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND</b>	<b><u>(\$683,000)</u></b>	<b><u>(\$820,000)</u></b>	<b><u>(\$820,000)</u></b>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2016 (10 Mo.)	 FY 2017	 FY 2018
	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which qualify for the sales tax exemption.

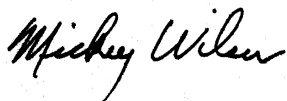
FISCAL DESCRIPTION

This proposal would create a state sales and use tax exemption for utilities, equipment, and materials used to generate or transmit electricity.

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

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration  
    Division of Budget and Planning  
Department of Economic Development  
    Public Service Commission  
Department of Revenue



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March 31, 2015

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