

Department of Finance and Administration

Legislative Impact Statement

Bill: SB791

Amendment Number: Engrossment 4/12/13 (Am. #S1)

Bill Subtitle: TO REDUCE THE SALES AND USE TAX ON NATURAL GAS AND ELECTRICITY USED BY MANUFACTURERS.

Basic Change :

Senators Sample, Files

Senate Amendment 1 --- The proposal would reduce the state sales and use tax rate on natural gas and electricity used in manufacturing by manufacturers classified in section 31 through 33 of the North American Industry Classification system (NAICS) and for certain high efficiency generators of electric power. The proposal would reduce the current statutory tax rate of 2.625% to the rate of 1.0% effective July 1, 2013 for manufacturing companies classified in NAICS 31 through 33. When combined with the 0.125% Conservation Tax and the new 0.5% Highway Tax, the total state tax rate would be 1.625%. Beginning July 1, 2015, the sale of natural gas and electricity used by the eligible manufacturers would be levied at a state tax rate of 0%. The bill provides that the 0.125% Conservation Tax and the 0.5% for Highways would continue. Local city and county sales and use taxes would also continue on these purchases.

Tax Rates for Manufacturers in NAICS 31 through 33

Through June 30, 2013	2.75% (current law)
July 1, 2013 through June 30, 2015	1.625%
July 1, 2015	0.625%

The bill also removes the provision of current law that caps the total tax savings at for the eligible manufacturers at \$27,000,000 per fiscal year. The cap level has not been met in previous years.

For natural gas and electricity used by a generator of electric power classified within Sector 22 of the North American Industry Classification System to operate a new or existing facility that uses combined cycle gas turbine technology, the state sales and use tax rate would be further reduced to 1% beginning on January 1, 2015. When combined with the 0.125% Conservation Tax and the 0.5% Highway Tax, the total state rate would be 1.625%.

Tax Rates for Eligible Electricity Generators

January 1, 2013 through June 30, 2013	4.25% (current law)
July 1, 2013 through December 31, 2013	4.75% (current law)
January 1, 2014 through December 31, 2014	3.25% (current law)
January 1, 2015	1.625%

The proposal includes an emergency clause to provide and effective date of July 1, 2013.

Revenue Impact :

FY14 Tax Decrease

Total Impact to State Revenues	- \$13.1 million
- \$ 9.7 million --- State General Revenue (4.5%)	
- \$ 1.9 million --- Educational Adequacy (.875% tax)	
- \$ 1.1 million --- Property Tax Relief Trust Fund (.5%)	
- \$ 0 million --- Conservation Tax (.125%)	
- \$ 0 million --- Highway Fund (.5%)	

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- \$ 0 million --- Educational Excellence Trust Fund
- \$ 0 million --- Educational Adequacy (GR transfer)
- \$.3 million --- State Central Services
- \$.1 million --- Constitutional Officers

FY15 Tax Decrease

- Total Impact to State Revenues - \$16.8 million
- \$11.0 million --- State General Revenue (4.5%)
- \$ 2.4 million --- Educational Adequacy (.875% tax)
- \$ 1.4 million --- Property Tax Relief Trust Fund (.5%)
- \$ 0 million --- Conservation Tax (.125%)
- \$ 0 million --- Highway Fund (.5%)
- \$ 1.4 million --- Educational Excellence Trust Fund
- \$.1 million --- Educational Adequacy (GR transfer)
- \$.4 million --- State Central Services
- \$.2 million --- Constitutional Officers

FY16 Tax Decrease

- Total Impact to State Revenues - \$27.2 million
- \$18.2 million --- State General Revenue (4.5%)
- \$ 3.9 million --- Educational Adequacy (.875% tax)
- \$ 2.2 million --- Property Tax Relief Trust Fund (.5%)
- \$ 0 million --- Conservation Tax (.125%)
- \$ 0 million --- Highway Fund (.5%)
- \$ 1.8 million --- Educational Excellence Trust Fund
- \$.2 million --- Educational Adequacy (GR transfer)
- \$.6 million --- State Central Services
- \$.3 million --- Constitutional Officers

FY17 Tax Decrease

- Total Impact to State Revenues - \$27.2 million
- \$17.0 million --- State General Revenue (4.5%)
- \$ 3.9 million --- Educational Adequacy (.875% tax)
- \$ 2.2 million --- Property Tax Relief Trust Fund (.5%)
- \$ 0 million --- Conservation Tax (.125%)
- \$ 0 million --- Highway Fund (.5%)
- \$ 2.9 million --- Educational Excellence Trust Fund
- \$.3 million --- Educational Adequacy (GR transfer)
- \$.6 million --- State Central Services
- \$.3 million --- Constitutional Officers

Taxpayer Impact :

Taxpayers would be required to change accounting and computer systems to allow for the rate changes and make the necessary changes for the exemption when it becomes effective.

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Resources Required :

None

Time Required :

Adequate time is provided for implementation

Procedural Changes :

Education of staff in the tax rate changes and a revision of the rules and reporting forms.

Legal Analysis :

Amendment No. 1 to SB791 basically makes this bill identical to HB1218 As Engrossed H4/3/13 (the current version of that bill) except for the following:

- SB791 does not include manufacturers in Sector 11511 (cotton gins) in the definition of types of manufacturers that receive the reduction in utility sales tax rates; and
- SB791 reduces the sale tax rate on manufacturers in sectors 31 through 33 to 0% starting July 1, 2015 (HB1218 starts this rate on July 1, 2014).

The bill contains an emergency clause and is effective July 1, 2013.