

CENTER FOR ENERGY STUDIES

NEWSLETTER

February, 1993

SUSPENDING THE EXEMPTIONS ON THE LOUISIANA RECOVERY DISTRICT SALES TAX - WHO PAYS AND HOW MUCH?

The State of Louisiana currently levies a 3 percent sales and use tax. Certain items are not included and are known as exclusions while other items are part of the sales tax base but have historically been exempted by various statutes. In recent years, many of the statutory exemptions have been suspended as the state sought ways to balance its budget. The current suspension of exemptions will produce approximately 297 million dollars this fiscal year (Legislative Fiscal Office, personal communication). As various individuals and groups seek solutions to the impending state budget imbalance, some discussions have centered upon additional sales tax including applying the exemption suspension to the Louisiana Recovery District one percent sales tax.

One of the major suspended exemption items involves energy. We calculate here the total amount attributable to energy and estimate the cost to business, industry and individual households.

To estimate the total sales tax collectons attributable to energy, we developed a simple model based on sales and then subtracted exclusions. The model was based on energy data from 1990 and 1991. For fiscal year 1991/92 the model produced an estimate of 88.1 million dollars for electricity and 49.2 million dollars for natural gas. Actual collections for FY 91/92 were 86.2 million dollars for electricity and 46 million dollars for natural gas. Given some error in classifying collections, differences in period of payment versus actual period of sale, the preliminary nature of some of the energy sales data for 1992, etc., we were comfortable with the model's estimate. We then used the same methodology to calculate the tax generated from other minor taxable energy sales such as fuel oil and LPG (mostly propane). These items are not categorized separately in various State of Louisiana revenue reports.

The total revenue from suspended exemptions on energy is 152 million dollars or 51.2 percent of the

total. As is shown in Table 1, business and industry pay 65 percent of the sales tax on energy and individual households pay the remaining 35 percent.

Table 1. Revenue Generated by Suspended Sales Tax Exemptions on Energy by Customer Class

<u>Customer Class</u>	<u>Energy Revenue*</u>	<u>Percent of Total Energy</u>
Residential	\$ 53,818,560	35.4
Commercial	\$ 31,204,600	20.5
Industrial	\$ 67,010,580	44.1
TOTAL	\$152,033,740	100.0

*Energy revenue is derived from electricity, natural gas, propane, fuel oil (for heating) and other miscellaneous fuels. Exclusions for electricity on chlor-alkali production and for natural gas as a feedstock for valued added products are taken into account. Without these chlor-alkali and feedstock exclusions industry would have had to pay an additional 51.3 million dollars. While we cannot provide an exact estimate at this time, the vast majority of the industrial energy revenue is from the Chemical and Petroleum Refining industries.

Using the preceding analysis we can estimate the additional energy costs of suspending the exemptions on the Louisiana Recovery District one cent sales tax by multiplying the data in Table 1 by one-third (Table 2).

Table 2. Estimated Revenue Generated on Energy by Customer Class by Suspended Sales Tax Exemptions on the Louisiana Recovery District

<u>Customer Class</u>	<u>Energy Revenue*</u>	<u>Percent of Total Energy</u>
Residential	\$ 17,900,000	35.4
Commercial	\$ 10,400,000	20.5
Industrial	\$ 22,300,000	44.1
TOTAL	\$ 50,600,000	100.0

Several special interest groups and individual legislators have asked how the suspensions affect individual households. We estimate the suspension of exemptions on the Recovery District will cost the average household \$41.84 (Table 3). This estimate was developed by combining data provided to us by the

Legislative Fiscal office and the Office of Fiscal Affairs and Policy Development on sales tax revenue generated by some other consumer items; the number of customers for electricity, natural gas, propane, etc.; census data on households; and taking into account some differences in the taxable base of the Recovery District versus traditional state sales taxes.

Table 3. Estimated Average Annual Household Cost of Suspending the Exemptions on the Recovery District Sales Tax.

Item	Annual Cost (\$)
1. Food	27.31
2. Electricity	9.20
3. Fuel	2.17
4. Water	0.44
5. Other	2.71
TOTAL	41.84

Report Status Update

In response to several inquiries our schedule for issuing various study reports is as follows:

1. Exploration and Production Tax Competitive Update will be issued in abbreviated form in the next issue of the CES Newsletter (March 1993).
2. Assessing the Louisiana Natural Gas Industry in Residential and Commercial Markets is expected to be released in Feb/March 1993.
3. Louisiana's Petroleum refining Industry is expected to be released in Feb. 1993.
4. Energy Overview and Analysis 1991/1992 for Energy Council Member States and International Affiliates will be released in June. 1993.

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