



STATE OF LOUISIANA
 Legislative Fiscal Office
BATON ROUGE

Post Office Box 44097
 Capitol Station
 Baton Rouge, Louisiana 70804
 Phone: 225.342.7233

Alan M Boxberger
 Legislative Fiscal Officer

TO: The Honorable Phillip R. DeVillier, Speaker of the House

FROM: Benjamin Vincent, Chief Legislative Economist
 Alan M. Boxberger, Legislative Fiscal Officer

DATE: October 7, 2024

SUBJECT: Preliminary Analysis of Draft Legislation – Sales Tax: Digital Products

Summary

Expenditures	2024-25	2025-26	2026-27	2027-28	2028-29
State General Fund	0	0	0	0	0
Self-Generated Revenues	Increase	Increase	Increase	Increase	Increase
Dedications/Other	0	0	0	0	0
Federal Funds	0	0	0	0	0
Local Funds	0	0	0	0	0
Annual Total	Increase	Increase	Increase	Increase	Increase

Revenues	2024-25	2025-26	2026-27	2027-28	2028-29
State General Fund	Increase	Increase	Increase	Increase	Increase
Self-Generated Revenues	Increase	Increase	Increase	Increase	Increase
Dedications/Other	Increase	Increase	Increase	Increase	Increase
Federal Funds	0	0	0	0	0
Local Funds	Increase	Increase	Increase	Increase	Increase
Annual Total	\$22,000,000	\$40,000,000	\$40,000,000	\$40,000,000	\$40,000,000

Expenditure Explanation and Assumptions

LDR anticipates minor programming, testing, and system development costs to accommodate required updates to returns, exemption certificates, LDR software, and the web-filing application, amounting to a one-time cost of approximately \$80,000. LDR anticipates no need for any additional positions or resources, despite certain increased demand for taxpayer assistance required by newly-taxable activity. LFO notes that increased collections will rely on taxpayer compliance, and effectively supporting such compliance will likely require increased enforcement expenditures. Any expenditure increases would be financed via SGR out of current collections, ultimately reducing SGF revenue mechanically.

Revenue Explanation and Assumptions

Current law generally excludes services from the sales and use tax base, and subjects a number of services to sales and use taxation explicitly by listing them as taxable services in statute. Digital items (e.g. media or certain software) are not clearly or consistently treated as either tangible personal property or taxable services, although some specific digital items are taxed as goods. The proposed bill adds a list of transactions to be explicitly included into the sales and use tax base as digital products, beginning on January 1, 2025. Newly-taxable digital items include (but are not limited to) audio or audiovisual works, books, games, applications, periodicals, other information services, and access to certain software services.

Any estimate of entirely-new tax collections, and the degree to which budgets rely on anticipated new collections, should be considered with significant caution.

Data for activities related to all items included in the proposal imply a range of \$1.1-\$1.3 billion dollars in potentially-taxable sales. It is unclear to what extent these data overlap with already-taxable activities, but it is possible that a significant portion of digital media transactions may already be frequently taxed and remitted voluntarily, in anticipation by firms of this potential trend in state taxation.

Assuming the 4.0% tax rate provided in current law (except for the 4.45% for the partial-year impact in FY25), these figures would imply a range of revenue impacts of \$44-\$62 million. LFO's preferred estimate in this range, adjusted by an additional assumption of existing voluntary compliance of 35%, results in an **approximately +\$40 million annual revenue impact**, following a partial-year impact of approximately +\$22 million in FY25.

These figures are represented in the table above as "Annual Totals", as some portion (~2%) of new revenues will be dedicated or reported as self-generated revenue, instead of general fund revenue.

This figure does not incorporate any growth assumptions, merely reflecting data intended to represent a typical recent year. Impacts, net of growth assumptions, would be reflected in REC projections that incorporate the proposal should it become law.