

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7128**  
**BILL NUMBER: HB 1179**

**DATE PREPARED:** Dec 31, 2000  
**BILL AMENDED:**

**SUBJECT:** Sales Tax Exemption for Purchase of Home Energy.

**FISCAL ANALYST:** John Parkey  
**PHONE NUMBER:** 232-9854

**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
**FEDERAL**

**IMPACT:** State

<b>STATE IMPACT</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
State Revenues		(172,000,000)	(177,000,000)
State Expenditures			
Net Increase (Decrease)		(172,000,000)	(177,000,000)

**Summary of Legislation:** This bill exempts the purchase of electricity, gas, oil, propane, coal, and other home energy sources from the State Gross Retail Tax.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** The Department of State Revenue may experience some additional administrative expenses to accommodate these changes in sales tax collections.

**Explanation of State Revenues:** This bill would eliminate the sales tax on residential purchases of home energy sources; such as, electricity, natural gas, home heating oil, propane, or other fuel sources used for the heating and cooling of the home. Based on data from state and federal sources, it was estimated that a repeal of the sales tax on residential sales of energy sources would decrease state revenue by approximately \$172 M in FY 2002 and \$177 M in FY 2003. Since this bill would become effective upon passage, the impact could also impact sales tax collections in FY 2001, depending on when the bill was signed into law.

The above estimate consists of estimated reductions in sales tax revenue from residential sales of electricity, natural gas, propane, and home heating fuel. The estimated revenue reductions attributable to these energy sources in FY 2002 are as follows:

Electricity	\$ 111 M
Natural Gas	\$ 46 M
Propane and Heating Oil	\$ 15 M
Total	\$ 172 M

Tax revenue from the sale of coal and wood for home heating was not included in this estimate because of data limitations and the limited number of households that purchases these products for home heating.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund ( 40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%).

The annual reductions to these funds for FY 2002 are estimated to be:

State General Fund	\$ 101,590,630
Property Tax Replacement Fund	\$ 68,840,000
Public Mass Transit Fund	\$ 1,307,960
Industrial Rail Service Loan Fund	\$ 292,570
Commuter Rail Service Fund	\$ 68,840
Total	\$ 172,100,000

Future sales tax collections on the sale of fuel are dependent upon the price of the fuel and the quantity consumed by Indiana residents. The above estimates are based on the average fuel sales obtained from two distinct methods. The first used past expenditure data from the Bureau of Labor Statistics' *Consumer Expenditure Survey* to project households' future expenditures on home energy. The second method used current consumption data and price projections supplied by the U.S. Department of Energy, Energy Information Agency, to estimate future sales. It is important to note that fluctuations in the price of fuels directly influence the amount of sales tax collected.

Because of the nature of energy consumption, the elimination of the sales tax on home energy would be similar to increasing consumers' disposal incomes. People with higher incomes tend to purchase more goods. To the extent that more taxable items are purchased, the impact of the bill on the state's sales tax revenue may be partially mitigated.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; U.S. Census Bureau; U.S. Department of Energy, Energy Information Agency; *December 19, 2000, Revenue Forecast Update*.