

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1671-01
Bill No.: HB 693
Subject: Utilities; Taxation and Revenue - Sales and Use
Type: Original
Date: April 20, 2015

Bill Summary: This proposal would authorize a state sales tax exemption for electricity and gas used or consumed and the specified related infrastructure involved in the production or transmission of electricity to customers.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$20,900,000)	(\$25,080,000)	(\$25,080,000)
Total Estimated Net Effect on General Revenue	(\$20,900,000)	(\$25,080,000)	(\$25,080,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
School District Trust	(\$6,966,667)	(\$8,360,000)	(\$8,360,000)
Conservation Commission	(\$870,833)	(\$1,045,000)	(\$1,045,000)
Parks, and Soil and Water	(\$696,667)	(\$836,000)	(\$836,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$8,534,167)	(\$10,241,000)	(\$10,241,000)

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

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

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

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

FISCAL ANALYSIS

ASSUMPTION

Oversight was unable to receive agency responses in a timely manner due to the short fiscal note request time. Oversight has prepared this fiscal note with the best current information that we have, or with prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will prepare an updated fiscal note and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

ASSUMPTION (continued)

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have statewide impact, and would impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted the proposal would exempt from sales tax various inputs to the utilities industry. These exemptions include the utilities, chemicals, machinery, equipment, supplies, parts and materials used by that industry.

BAP officials assumed the terms "supplies, parts, and materials" would include most inputs to production for the utilities, and noted the following.

- * According to the Input-Output Use Tables provided by the United States Department of Commerce, Bureau of Economic Analysis, inputs from commodities that might qualify under these exemptions are roughly equal to 16% of the total output of the "utilities" industry.
- * Missouri Department of Revenue (DOR) reports indicate taxable sales of "utilities" in 2014 were about \$5,125 million, which suggests that this proposal might exempt ($\$5125 \text{ million} \times 16\%$) = \$836.4 million in currently taxable sales from taxation.

BAP officials assumed this proposal would reduce state revenues as shown in the table below; however, actual losses may differ from this estimate if the actual output of the firms in question differs from the estimate of the taxable sales reported by DOR, if some inputs are already exempt, or if the ratio of taxable inputs differs from that assumed for this analysis.

General Revenue	\$25.1 million
Education	\$8.4 million
Conservation	\$1.0 million
Natural Resources	\$0.8 million

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assumed a similar proposal in the previous session (HB 2255 LR 6517-01) would have created a sales tax exemption for electrical energy and gas, water, coal, and other 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.

Fiscal impact

DOR officials stated they were not able to determine the exact fiscal impact to state and local taxes; however, based on refund claims from companies in a similar industry, the Department estimates the impact may be between \$30 and \$60 million annually. The state revenue loss would be approximately half the \$30 to \$60 million and the local revenue loss would be approximately half.

Administrative impact

DOR officials assumed the proposal would not result in any administrative or IT cost to implement.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown negative fiscal impact to their organization, but greater than \$100,000. MDC officials deferred to the Department of Revenue for an estimate of the anticipated fiscal impact for this proposal.

Officials from the **Department of Natural Resources (DNR)** deferred to the Department of Revenue and Office of Administration - Division of Budget and Planning for a more detailed account of the fiscal impact of assumed similar language in SB 377 LR 1876-01.

Officials from the **Joint Committee on Administrative Rules** and the **Department of Economic Development** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of the Secretary of State** assumed a similar proposal in the previous session (HB 2255 LR 6517-01) have no fiscal impact on their organization.

ASSUMPTION (continued)

Oversight notes the BAP estimate of \$836 million (rounded) in potentially taxable inputs indicated above would generate sales tax revenues as shown below.

Fund or entity	Sales Tax Rate	Estimated Revenue	
		Ten months	Annual
General Revenue Fund	3.000%	\$20,900,000	\$25,080,000
School District Trust Fund	1.000%	\$6,966,667	\$8,360,000
Conservation Commission Fund	0.125%	\$870,833	\$1,045,000
Parks, and Soil and Water Fund	0.100%	\$696,667	\$836,000

Oversight will use these amounts for fiscal note purposes.

Oversight assumes this proposal was not intended to provide a sales and use tax exemption for motor vehicles purchased by utility companies. If this proposal was interpreted to provide a sales and use tax exemption for motor vehicles purchased by utility companies, there would be a significant but unknown additional reduction in revenue for road funds, conservation, and parks and soils.

Oversight also notes that revenues in the School District Trust Fund are distributed, along with other revenues, to local school districts, but will not include those distributions in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Revenue reduction - Sales tax exemption</u> Section 144.058	<u>(\$20,900,000)</u>	<u>(\$25,080,000)</u>	<u>(\$25,080,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$20,900,000)</u>	<u>(\$25,080,000)</u>	<u>(\$25,080,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction - Sales tax exemption</u> Section 144.058	<u>(\$6,966,667)</u>	<u>(\$8,360,000)</u>	<u>(\$8,360,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$6,966,667)</u>	<u>(\$8,360,000)</u>	<u>(\$8,360,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - Sales tax exemption</u> Section 144.058	<u>(\$870,833)</u>	<u>(\$1,045,000)</u>	<u>(\$1,045,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$870,833)</u>	<u>(\$1,045,000)</u>	<u>(\$1,045,000)</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Revenue reduction - Sales tax exemption</u> Section 144.058	<u>(\$696,667)</u>	<u>(\$836,000)</u>	<u>(\$836,000)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(\$696,667)</u>	<u>(\$836,000)</u>	<u>(\$836,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This could have a direct fiscal impact to small businesses involved in electrical distribution.

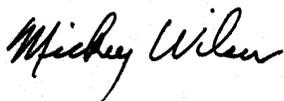
FISCAL DESCRIPTION

This proposal would provide a state sales tax exemption for electrical energy, gas, water, coal, energy sources, and specified materials used or consumed in the production or transmission of electricity to customers.

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
Department of Revenue



Mickey Wilson, CPA
Director

Ross Strobe
Assistant Director

L.R. No. 1671-01
Bill No. HB 693
Page 9 of 9
April 20, 2015

April 20, 2015

April 20, 2015