

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4325-01
Bill No.: HB 1951
Subject: Taxation and Revenue-General, Sales and Use; Funerals
Type: Original
Date: March 6, 2002

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|--------------------|----------------------|----------------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| General Revenue | (\$397,306) | (\$1,127,640) | (\$1,923,226) |
| School District Trust | (\$123,239) | (\$375,880) | (\$641,075) |
| Conservation | (\$15,405) | (\$46,985) | (\$80,134) |
| Parks and Soil | (\$12,324) | (\$37,588) | (\$64,108) |
| Total Estimated Net Effect on <u>All</u> State Funds | (\$548,274) | (\$1,588,093) | (\$2,708,543) |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| None | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2003 | FY 2004 | FY 2005 |
| Local Government | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation exempts coffins, caskets, and urns from state sales tax. DOR assumes this legislation would not fiscally impact their agency.

However, in response to a similar proposal, DOR stated the local tax will still apply. This legislation will create an item tax situation/additional line (similar to food) on the sales tax return.

DOR assumes MITS will need to be programmed to recognize the new item/tax rate for coffins, caskets and urns as well as a system test. The changes to MITS will require 692 hours of programming at a total cost of \$23,085. The State Data Center costs to implement the proposed legislation will be \$4,503.

DOR staff assumed 80% of all taxable sales by funeral homes and crematories involve sales of the above items. Taxable sales for businesses in the SIC category "726-Funeral Service and Crematories" in FY 98 were \$108,925,594. If it is assumed that 80% of these sales represent these items, the amount of taxable sales that would be exempted in FY 98 would be \$87,140,475. 2.5% inflation is assumed.

In response to a similar proposal, officials of the **Office of Administration, Division of Budget and Planning (BAP)** assumed this bill would exempt coffins, caskets, and urns from sales tax. BAP has no data on spending on these items. Thus, BAP defers to the DOR estimate. This bill would have no impact on the Office of Administration.

Oversight assumes with the phase-in provisions of this legislation, the fiscal impact would be for six months in FY 2003. Estimates are based on 1998 sales data. Oversight assumes this legislation will reduce revenue by \$520,686 in FY03, \$1.6 million in FY04, and \$2.7 million in FY05. The exemption will be fully phased-in by FY07 at an estimated revenue loss of \$4.5 million.

This proposal would result in a decrease in Total State Revenues.

| <u>FISCAL IMPACT - State Government</u> | FY 2003 (6 Mo.) | FY 2004 | FY 2005 |
|--|---------------------------|-----------------------------|-----------------------------|
| GENERAL REVENUE | | | |
| <u>Loss - General Revenue Fund</u> | | | |
| Elimination of sales tax on coffins, caskets and urns | (\$369,718) | (\$1,127,640) | (\$1,923,226) |
| <u>Cost - Dept. of Revenue</u> | | | |
| Programming | <u>(\$27,588)</u> | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>(\$397,306)</u> | <u>(\$1,127,640)</u> | <u>(\$1,923,226)</u> |
| VARIOUS STATE FUNDS | | | |
| <u>Loss - School District Trust Fund</u> | | | |
| Elimination of sales tax on coffins, caskets and urns | (\$123,239) | (\$375,880) | (\$641,075) |
| <u>Loss - Conservation Fund</u> | | | |
| Elimination of sales tax on coffins, caskets and urns | (\$15,405) | (\$46,985) | (\$80,134) |
| <u>Loss - Parks and Soil Fund</u> | | | |
| Elimination of sales tax on coffins, caskets and urns | <u>(\$12,324)</u> | <u>(\$37,588)</u> | <u>(\$64,108)</u> |
| ESTIMATED NET EFFECT ON ALL STATE FUNDS | <u>(\$548,274)</u> | <u>(\$1,588,093)</u> | <u>(\$2,708,543)</u> |
| | | | |
| <u>FISCAL IMPACT - Local Government</u> | FY 2003 (6 Mo.) | FY 2004 | FY 2005 |
| | \$0 | \$0 | \$0 |

FISCAL IMPACT - Small Business

Small businesses who sell coffins, caskets and urns would be expected to be fiscally impacted to the extent they would no longer collect and pay state sales tax on these items.

DESCRIPTION

This bill phases-in a state sales and use tax exemption on sales of coffins, caskets, and urns over a four-year period. The bill exempts one-fourth of the sales in 2003, one-half of the sales in 2004, three-fourths of the sales in 2005, and fully exempts sales beginning in 2006 and thereafter.

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

Department of Revenue
Office of Administration
Division of Budget and Planning



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