

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0624-01
Bill No.: SB 197
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: January 17, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$15,569,616	\$43,155,829	\$0
Total Estimated Net Effect on General Revenue Fund*	\$15,569,616	\$43,155,829	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
School District Trust	\$6,794,500	\$14,398,000	\$0
Conservation	\$849,313	\$1,799,750	\$0
Parks and Soil	\$679,450	\$1,439,800	\$0
Total Estimated Net Effect on Other State Funds*	\$8,323,263	\$17,637,550	\$0

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government*	\$10,191,750	\$21,597,000	\$0

*** This proposal is permissive. Voter approval would be required before fiscal impact would be realized.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Public Safety, Division of Water Safety, Department of Economic Development, Public Service Commission, State Tax Commission** and the **Office of the State Treasurer** assume this proposal will not impact their agencies.

Officials from the **Department of Transportation** did not respond to our fiscal note request.

Officials from the **Department of Revenue (DOR)** state this legislation suspends all sales tax exemptions with the exception of the food exemption and pharmaceuticals and related items. The proposed legislation will require notification to all registered accounts of the exemption changes. As well as notification to apartment and nursing homes and utility companies. Exemptions will need to be canceled. This legislation will impact the number of calls received in the Tax Assistance Centers. After a two year period, sales tax exemptions, as existing today, are restored.

DOR assumes approximately 150,000 notification letters will need to be mailed to the registered sales tax accounts. An additional 50,000 letters will need to be mailed to cancel and then reissue the exemptions. As well as, about 700 apartment/nursing home and 150 utilities will need to be

ASSUMPTION (continued)

notified of the domestic utility exemption. An additional Taxpayer Services Rep I will be needed for every additional 5,193 phone calls received in the Tax Assistance Centers.

DOR assumes if all sales tax exemptions are suspended, it would include the exemption for fuel that is subject to an excise tax. DOR believes this means fuel would be subject to sales tax at the pump. Estimating 3.9 million gallons of fuel and a selling price of \$1.30/gallon times the tax rate of 4.225% - \$214.2 million in sales tax collections.

DOR assumes the MITS system will need minor program changes to implement the proposed legislation and generate the notification letters, as well as, a complete system test. DOR estimates that the MITS changes will require 692 hours of programming at a total cost of \$23,085. The State Data Center charges to implement the proposed legislation will be \$4,503.

Oversight has, for fiscal note purposes only, changed the starting salary for the Taxpayer Services Rep I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, **Oversight** has reduced the amount requested for postage to reflect the bulk mailing rate.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** state this proposal suspends statutory sales and use tax exemptions. The University of Missouri-Columbia prepares an annual "Tax Expenditure Report" that estimates the revenue loss attributable to sales tax exemptions. BAP has provided a copy of the 2002 edition to Oversight. BAP recommends that these figures be used for developing this fiscal note. The 2003 edition of the "Tax Expenditure Report" is not yet available.

Officials from the **Department of Elementary and Secondary Education (DES)** assume there appears to be no cost to DESE or schools. There is probably the potential for some increased revenue in the School District Trust Fund (1 cent sales tax). However, DES does not think all the current exemptions apply to the 1 cent sales tax. DES assumes DOR will provide an estimate of the increased revenue to the School District Trust Fund. An increase in the fund increases the amount that will be distributed to school districts. Half of any increased distribution will become a deduction in the foundation formula, thereby reducing the increasing cost of the foundation formula. The amount is unknown.

ASSUMPTION (continued)

Officials from the **Missouri Department of Conservation (MDC)** state this legislation suspends all sales tax exemptions for two years with the exception of food, pharmaceuticals and related items. This proposed legislation would have a positive effect on MDC funds because of an increase in sales tax revenue. MDC assumes the amount of fiscal impact is unknown.

Department of Natural Resources (DNR) officials state this proposal would suspend all statutory sales and use tax exemptions (with the exceptions of food and certain pharmaceuticals and related health care items) beginning July 1, 2003 and ending June 30, 2005.

DNR assumes this proposal would result in increased revenue to the Parks and Soils Sales Tax Fund. DNR further assumes the Department of Revenue or the Office of Administration will provide Oversight with revenue projections.

Officials from the **Office of the Secretary of State (SOS)** assume the only cost to SOS for this legislation would be the publishing costs of \$3,485 per newspaper column inch. SOS estimates 200 inches at a cost of \$697,000 to print the text of the proposal, the introduction, title, fiscal note summary, and affidavit.

Officials from the **Office of Administration** assume the election costs for the special election in November 2003 would be approximately \$4 million.

Oversight, for purposes of this fiscal note, has reflected the increase in sales tax revenue based upon information provided in the 2002 Tax Expenditure Report, resulting in an income of \$60.8 million in state funds due to the elimination of the sales and use tax exemptions for FY05, and \$64.3 million in FY06. Since this legislation is subject to voter referendum, **Oversight** assumes this proposal would have no state or local fiscal impact without voter approval. The proposal would be on the ballot for the November 2003 special election. If approved by voters, **Oversight** assumes this proposal would not be effective until January 1, 2004 to allow for DOR notification to businesses.

This proposal would result in an increase in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (6 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Income</u> to General Revenue Fund			
Removal of sales tax exemptions	\$20,383,500	\$43,194,000	\$0
<u>Cost</u> - Department of Revenue			
Personal Service	(\$10,860)	(\$26,766)	\$0
Fringe Benefits	(\$4,395)	(\$10,832)	\$0
Expense and Equipment	(\$6,813)	(\$573)	\$0
Postage	(\$67,228)	\$0	\$0
Programming	<u>(\$27,588)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	(\$116,884)	(\$38,171)	\$0
<u>Cost</u> - Office of Administration			
Special Election	(\$4,000,000)	\$0	\$0
<u>Cost</u> - Secretary of State			
Newspaper Advertisements	<u>(\$697,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$15,569,616</u>	<u>\$43,155,829</u>	<u>\$0</u>
OTHER STATE FUNDS			
<u>Income</u> to School District Trust Fund			
Removal of sales tax exemptions	\$6,794,500	\$14,398,000	\$0
<u>Income</u> to Conservation Fund			
Removal of sales tax exemptions	\$849,313	\$1,799,750	\$0
<u>Income</u> to Parks and Soil Funds			
Removal of sales tax exemptions	<u>\$679,450</u>	<u>\$1,439,800</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS	<u>\$8,323,263</u>	<u>\$17,637,550</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (6 Mo.)	FY 2005	FY 2006
<u>Income to Cities</u>			
Removal of sales tax exemptions	\$6,115,050	\$12,958,200	\$0
<u>Income to Counties</u>			
Removal of sales tax exemptions	<u>\$4,076,700</u>	<u>\$8,638,800</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>\$10,191,750</u>	<u>\$21,597,000</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that are eligible for sales tax exemptions would have increased costs as a result of this proposal.

DESCRIPTION

This proposal suspends all statutory sales and use tax exemptions, with the exceptions of food and certain pharmaceuticals and related health care items.

The suspension affected by this proposal will take effect beginning July 1, 2003 and ending June 30, 2005.

This proposal has a referendum clause.

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 Public Safety
 Division of Water Safety
State Tax Commission
State Treasurer' Office
Department of Revenue
Department of Elementary and Secondary Education
Missouri Department of Conservation
Department of Natural Resources
Secretary of State
Department of Economic Development
 Public Service Commission
Office of Administration
 Budget and Planning
2002 Tax Expenditure Report

NOT RESPONDING: Department of Transportation



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Director
January 17, 2003