

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5100-02
Bill No.: Perfected HCS for HB 2250
Subject: Taxation and Revenue - Sales and Use; Education, Elementary and Secondary
Type: Original
Date: April 16, 2008

Bill Summary: Would create a sales tax holiday for retail sales of certain energy efficient products and for spending the federal economic stimulus rebate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(More than \$265,250)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$265,250)	(More than \$100,000)	(More than \$100,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Conservation Commission	(More than \$100,000)	(Unknown)	(Unknown)
Parks, and Soils and Water	(More than \$100,000)	(Unknown)	(Unknown)
School District Trust	(More than \$200,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$400,000)	(More than \$100,000)	(More than \$100,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed a previous version of this proposal would not result in additional costs or savings to their organization.

The proposal would exempt purchases of "Energy Star" certified appliances from sales tax for a seven day period in November 2008, and every succeeding year in April. The proposal includes a local opt-out option. Based on Personal Consumption data as provided by the United States Bureau of Economic Analysis, sales of qualifying appliances would be approximately 0.04% of annual retail sales. Gross GR sales tax collections in FY 2007 were \$1,977.7 million. Therefore, general and total state revenues could be reduced for each sales tax holiday as in the table below. Since the holiday would occur twice in FY09, the FY 2009 impact would be twice as large.

General Revenue	\$791,000
Prop C	\$264,000
Conservation	\$33,000
DNR	<u>\$26,000</u>
Total	<u>\$1,114,000</u>

This proposal would also create a sales tax holiday for all products with a selling price less than \$600 for a three day period in June. The June sales tax holiday has no local opt-out option. BAP notes that 3 days out of 365 is about 0.82% of a calendar year, therefore, most state and local sales taxes would be reduced by this much. Although the holiday occurs during the last week of FY08, the timing of sales tax payments to the state forces the loss into FY09. Based on FY 2007 receipts, FY 2009 revenue losses would be as in the table below.

General Revenue	\$16,255,000
Prop C	\$6,347,000
Conservation	\$849,000
DNR	<u>\$680,000</u>
Total	<u>\$24,131,000</u>

Motor vehicle sales taxes would see minimal impact, assuming most motor vehicle sellers fall into the exceptional category where less than 2 percent of their sales otherwise qualifies for the holiday.

ASSUMPTION (continued)

Oversight assumes that motor vehicle sales would not be subject to the sales tax holiday due to the \$1,500 selling price limit.

Officials from the **Department of Elementary and Secondary Education** deferred to the Department of Revenue as to the fiscal impact of the proposal.

Officials from the **Department of Conservation** (MDC) assume this proposal would create a sales tax holiday for retail sales of certain energy efficient products and for spending the federal economic stimulus rebate. MDC officials assume this proposal would have a negative impact on MDC funds. However, MDC is unable to provide an estimated impact and will rely on DOR for the fiscal impact of this legislation.

Officials from the **Department of Natural Resources** (DNR) assume the proposal would:

- * Establish the "Show-Me Green Tax Holiday Act" which would authorize a state sales and use tax exemption on the purchase of new energy efficient products costing \$1,500 or less and purchased for personal use during a seven-day period each November, beginning January 1, 2008.
- * Establish a state and local sales and use tax exemption on the purchase of any product costing \$600 or less during a three-day period beginning on June 27, 2008. Retailers with less than 2% of their sales for qualifying merchandise during the holiday may offer a sales tax refund in lieu of the sales tax holiday.

The DNR Parks and Soils Tax Fund is derived from a one-tenth of one percent sales and use tax. Therefore, any additional sales and use tax exemption would be a loss to the Parks and Sales Tax Fund.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would create sales tax holiday programs.

Show-Me Green Sales Tax Holiday

Beginning on January 1, 2008, retail sales of any energy efficient product having a selling price of \$1,500 or less per product would be exempted from the state sales tax law during a seven day period beginning at 12:01 a.m. on the first Friday in November and ending at midnight on the Thursday following. Beginning on or after January 1, 2009, such sales would be exempted during a seven-day period beginning at 12:01 a.m. on April 19 and ending at midnight April 25.

Beginning on August 28, 2008, the governing body of any political subdivision could adopt an ordinance exempting the political subdivision from the sales tax holiday. Upon adoption of such an ordinance, the governing body of the political subdivision would be required to provide written notice to DOR.

The sales tax holiday would not apply to any sales which take place within the Missouri state fairgrounds, nor would it apply to any sales of items purchased for trade, business, or resale purposes. The sales tax holiday would also not apply to any retailer when less than two percent of the retailer's merchandise offered for sale would qualify for the sales tax holiday. In that case, the retailer would be required to offer a sales tax refund in lieu of the sales tax holiday.

DOR assumes that changes to sales tax forms and instructions would be required, changes to the MITS system would be required, and written notification to all retail businesses would be required.

Federal Economic Stimulus Sales Tax Holiday

Retail sales of any product having a selling price of \$600 or less per product would be exempted from state and local sales tax during a three day period beginning at 12:01 a.m. on June 27, 2008, and ending at midnight on June 29, 2008. The sales tax holiday would not apply to any retailer when less than two percent of the retailer's merchandise offered for sale would qualify for the sales tax holiday. In that case, the retailer would be required to offer a sales tax refund in lieu of the sales tax holiday.

ASSUMPTION (continued)

DOR assumes that changes to sales tax forms and instructions would be required, changes to the MITS system would be required, and written notification to all retail businesses would be required.

DOR estimated the fiscal impact of the proposal to their organization as follows.

Show-Me Green Sales Tax Holiday

Using data collected from the 3rd quarter of 2007, DOR assumes that a mailing for approximately 2,121 accounts would be required for businesses registered under a "household appliance store" classification code. DOR assumes this mailing would cost less than \$1,000 and could be absorbed with existing resources.

Federal Economic Stimulus Sales Tax Holiday

DOR assumes that Sales Tax would require a mass mailing to 150,000 retail businesses at a cost of $(150,000 @ \$0.025 + 150,000 @ \$0.41) = \$65,250$.

DOR officials also provided an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing two FTE existing CIT III for two months at a total cost of \$16,744. ITSD/DOR assumes the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

ASSUMPTION (continued)

Oversight has estimated the fiscal impact of this proposal as follows.

Show-Me Green Sales Tax Holiday

According to information provided by the State Tax Commission, there are an average of 25,500 new homes constructed each year in Missouri. Assuming that each new home would have \$5,000 in new energy-efficient appliances there would be \$127.5 million in taxable sales for an estimated \$7.7 million in sales tax revenues. Weekly sales would be \$2.5 million. The sales tax would be distributed among taxing authorities as follows.

State of Missouri

General Revenue Fund (\$2.5 million x 3%)	\$73,600
School District Trust Fund (\$2.5 million x 1%)	\$24,500
Conservation Commission Fund (\$2.5 million x 1/8%)	\$3,100
Parks, and Soils and Water Fund (\$2.5 million x 1/10%)	\$2,500

Oversight assumes that sales to other consumers would be several times sales to new home buyers, and that a sales tax holiday would tend to concentrate sales in the tax-free period. Accordingly, Oversight will assume that this proposal would have an unknown fiscal impact, and that impact would exceed \$100,000 for the General Revenue Fund and other state funds which receive sales tax funds. Oversight assumes that most local taxing authorities would not choose to opt out of the sales tax holiday and that local governments would also have revenue losses in excess of \$100,000 per tax holiday.

Federal Economic Stimulus Sales Tax Holiday

According to the federal Internal Revenue Service, Missouri residents filed 2.6 million tax returns for 2005, of which 1.5 million were single filers and 1.1 million were joint filers. There were a total of 5.2 million exemptions claimed on these returns. The federal program would provide rebates of \$600 for single filers and \$1,200 for joint filers, \$300 for dependents, and \$300 for Social Security recipients and disabled veterans if they earned at least \$3,000 in benefits in 2007. Oversight assumes that all of the rebates would be received by Missouri filers in the second half of 2008 and all of the fiscal impact would be in FY 2009.

ASSUMPTION (continued)

Total exemptions	5,200,000
Joint filers (1,100,000 filers x 2 exemptions)	-2,200,000
Single filers (1,500,000 x 1 exemption)	<u>-1,500,000</u>
Estimated remaining exemptions	<u>1,500,000</u>

Oversight has examined available statistical reports and estimated the number of filers whose incomes would likely make them ineligible for the federal rebate program.

Single filer rebates - (1,500,000 x \$600)	\$900,000,000
Less filers over income limit - (102,162 x \$600)	<u>\$61,297,200</u>
Net single filer rebates	<u>\$838,702,800</u>
Joint filer rebates - (1,100,000 x \$1,200)	\$1,320,000,000
Less filers over income limit (321,122 x 2 x \$1,200)	<u>\$385,346,400</u>
Net joint filer rebates	<u>\$934,653,600</u>

Oversight assumes that rebates for dependents and others would be reduced in the same proportion as filers with incomes over the maximum for the federal rebate program.

Single filer households over income limit	102,162
Joint filer households over income limit	<u>321,122</u>
Total over income limit	<u>423,284</u>
Single filer household total	1,500,000
Joint filer household total	<u>1,100,000</u>
Total	<u>2,600,000</u>
Percent over income limit (423,284/2,600,000) =	<u>16.2%</u>
Estimated number of dependents in households over Income limit (1,500,000 x 16.2%) =	<u>243,000</u>
Rebates for dependents and others (1,500,000 x \$300)	\$450,000,000
Less dependents over income limit (243,000 x \$300)	<u>\$72,900,000</u>
Net dependent rebates	<u>\$377,100,000</u>

ASSUMPTION (continued)

Estimated total rebates:

Single filer	\$838,702,800
Joint filer	\$934,653,600
Dependents and others	<u>\$377,100,000</u>
Total	<u>\$2,150,456,400</u>

If the estimated total rebates were to be spent on otherwise taxable items within the sales tax holiday period, the maximum potential sales tax reduction would be distributed as follows among the entities collecting sales taxes.

General Revenue Fund - (3% x \$2,150,456,400) =	\$64,513,692
School District Trust Fund - (1% x \$2,150,456,400) =	\$21,504,564
Conservation Commission Fund - (1/8% x \$2,150,456,400) =	\$2,688,071
Parks, and Soils and Water Fund - (1/10% x \$2,150,456,400) =	<u>\$2,150,456</u>
Total	<u>\$90,856,783</u>

Oversight notes that the revenue reduction could be larger than the calculated amount since additional rebates could be paid to Missouri residents who do not currently file an income tax return but will file in order to qualify for the rebate program. In addition, the sales tax holiday could attract sales from residents of other states. Oversight also notes that the reduction in potential sales tax revenue could be less than the amount calculated since a significant portion of the rebates may not be spent within the sales tax holiday period or may not be spent on otherwise taxable items. Accordingly, this calculation is only an estimate.

Oversight notes that this provision would not impact local governments and will indicate a revenue reduction in excess of \$100,000 for each of the state funds that receive sales taxes.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Notification to retailers	<u>(\$65,250)</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenue reduction - Show Me Green Sales Tax Holiday</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
<u>Revenue reduction - Federal Economic Stimulus Sales Tax Holiday</u>	<u>(More than \$100,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$265,250)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - Show Me Green Sales Tax Holiday</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Revenue reduction - Federal Economic Stimulus Sales Tax Holiday</u>	<u>(More than \$100,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(More than \$100,000)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
PARKS, AND SOILS AND WATER FUNDS			
<u>Revenue reduction - Show Me Green Sales Tax Holiday</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Revenue reduction - Federal Economic Stimulus Sales Tax Holiday</u>	<u>(More than \$100,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON PARKS, AND SOILS AND WATER FUNDS	<u>(More than \$100,000)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction - Show Me Green Sales Tax Holiday</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
<u>Revenue reduction - Federal Economic Stimulus Sales Tax Holiday</u>	<u>(More than \$100,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(More than \$200,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - Show Me Green Sales Tax Holiday	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

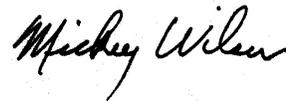
FISCAL DESCRIPTION

This proposal would create a sales tax holiday for retail sales of certain energy efficient products.

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 Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Conservation
Department of Natural Resources
Department of Revenue



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