

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4879-06
Bill No.: SCS for HCS for HB 2048
Subject: Taxation and Revenue - Sales and Use; Revenue Dept.
Type: Original
Date: April 26, 2010

Bill Summary: Changes several provisions relating to taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Conservation Commission	(Unknown)	(Unknown)	(Unknown)
Parks, and Soil and Water	(Unknown)	(Unknown)	(Unknown)
School District Trust	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
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 2011	FY 2012	FY 2013
Local Government	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated in response to a previous version of the proposal that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings for their organization. BAP officials stated that the proposal:

- * Would remove unpaid health service billings from the definition of "debt" for the purposes of income tax refund offsets.
- * Would add definitions to the sales tax statutes regarding sales for resale. This provision would have significant impact on general and total state revenues. BAP defers to the Department of Revenue for estimated impacts.
- * Would provide a sales tax exemption for gratuities. To the extent that gratuities have been taxed in the past, this provision would reduce general and total state revenues, and local revenues. BAP does not have an estimate of taxes collected on gratuities.
- * Would specify that any sales or lodging taxes on transient accommodations would be paid on the actual amount received by an operator. This provision would appear to codify the current intent of the law, and would therefore have minimal impact on general and total state revenues, or local revenues.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact to their organization but would reduce total state revenue.

Sales Tax Exemptions

DOR officials assume that the intent of a portion of this legislation is to address changes to the law regarding the sale for resale exclusion that were brought about by two Missouri Supreme Court cases, ICC Management, Inc. v. Director of Revenue. The proposal would codify several sales tax exemptions, and substantially decrease total state revenue compared to current law.

In addition, the proposal would require the operator of a place of amusement to charge sales tax on the actual amount it receives for admissions or seating accommodations; a subsequent sale of such admission or seating accommodation would not be subject to sales tax. The operator of a hotel or restaurant would also be required to charge sales tax on the actual amount it receives for rooms or meals; a subsequent sale of such room or meal would not be subject to sales tax. Gratuities would also be exempted from sales tax.

Officials from the **Department of Conservation** (MDC) assume this proposal could have a negative impact on MDC funds; however, MDC was not able to provide an estimate of the impact and deferred to the Department of Revenue for that estimate.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would define certain purchases made for resale as not sales at retail. This would appear to create an additional sales tax exemption. This proposal would create a sales tax exemption on mandatory and voluntary gratuities provided in conjunction with the receipt of property or services regardless of whether such property or service is subject to sales tax. Adding exemptions from sales tax would have a negative effect on total state revenue.

Other provisions included in this proposal would modify the process for setting property tax rates and the determination of projected property tax liability, and the proposal includes provisions which would modify the process for establishment of exhibition center and recreational districts. The proposal includes an emergency clause.

ASSUMPTION (continued)

The DNR Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. Adding sales tax exemptions would decrease the amount of funding available in the Parks and Soils Sales Tax Funds. These funds have been used for the acquisition and development, maintenance and operation of state parks and historic sites, and to assist agricultural landowners through voluntary programs.

Officials from **St. Louis County** assume this proposal would have an insignificant impact on their organization.

Officials from the **City of Centralia** assume this proposal would have no fiscal impact on their organization.

Officials from the **City of Kansas City** assume this proposal would have a large negative fiscal impact on their organization because of the loss of sales and convention and tourism tax revenues imposed on the markup on ticket sales.

Oversight assumes these provisions would reduce sales tax revenues by an unknown amount, and will indicate a revenue reduction in excess of \$100,000 per year to the General Revenue Fund and to local governments. Since the sales tax rates for other state funds which receive sales tax revenues are considerably lower than for the General Revenue Fund, Oversight will indicate unknown losses for those funds. Further, since the proposal includes an emergency clause, a full year's impact would be expected for FY 2011.

Oversight did not receive any responses related to the property tax provisions, nor to the county exhibition center provisions. Oversight assumes the property tax provisions would have no fiscal impact. Oversight also assumes the exhibition center provisions are enabling in nature and that any fiscal impact would be created by local government action as authorized under those provisions. Oversight will not indicate any fiscal impact from those provisions.

Oversight assumes there would be no fiscal impact to the state or to local governments due to the elimination of unpaid health care billings from the tax refund offset program.

<u>FISCAL IMPACT - State Government</u>	FY 2011	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u> - sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - sales tax exemptions	<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

This proposal would make changes to several sales tax provisions; therefore, the proposal could have an impact to small businesses involved in the specific types of transactions addressed.

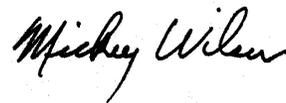
FISCAL DESCRIPTION

This proposal would define certain purchases made for resale as not sales at retail. Other provisions would create a sales tax exemption on gratuities, and modify provisions for setting property tax rates and for the determination of projected property tax liability. The proposal also includes provisions which would modify the process for creating exhibition and recreation center districts.

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
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
St. Louis County
City of Centralia
City of Kansas City



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Director
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