

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5040-02
Bill No.: Perfected SCS for SB 944
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 22, 2010

Bill Summary: Would create additional state and local sales and use tax exemptions.

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)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Conservation Commission	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Parks, and Soil and Water	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
School District Trust	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

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 Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal. BAP officials stated that this proposal would reduce general and total state revenues, and local revenues, by an unknown amount.

This proposal would provide a sales tax exemption for gratuities. To the extent that gratuities may have been taxed in the past, this proposal would reduce general and total state revenues, and local revenues. BAP does not have an estimate of taxes collected on gratuities.

This proposal would also provide a tax exemption for the sale or production of game birds for hunting. BAP does not have data on game bird sales or related production costs.

ASSUMPTION (continued)

Officials from the **Department of Labor and Industrial Relations**, and the **City of Centralia** assume this proposal would have no fiscal impact on their organizations.

Officials from the **City of Kansas City** assume this proposal would have an unknown negative impact on their organization.

Officials from the **Department of Conservation** (MDC) assume this proposal would create state and local sales tax exemptions. MDC officials stated that this proposal would have a negative fiscal impact on MDC funds. However, MDC is unable to provide the estimated amount and will rely on DOR for the fiscal impact of the legislation.

Sales Tax Exemption for Gratuities

In response to similar proposals, officials from the **Office of the Secretary of State** (SOS) stated 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 **Department of Revenue** assumed a previous version of this proposal would have no fiscal impact on their organization.

Officials from the **Department of Revenue** (DOR) also stated in response to a previous version of this proposal that mandatory tips which are added to patrons' guest bills are currently reported as taxable sales, but DOR did not have information as to the amounts of gratuities or related sales tax payments.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** (DNR) assumed a previous version of 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.

DNR officials stated that adding exemptions from sales tax would have a negative effect on total state revenue, and adding exemptions from sales tax would decrease the amount of funding available in the Parks & Soils Sales Tax Funds.

Officials from **Platte County** assumed the impact of a previous version of this proposal on their organization would be minimal.

Officials from **St. Louis County** assume the impact of this proposal on their organization would not be great.

Oversight was not able to locate information regarding aggregate amounts of gratuities in Missouri; however, the Internal Revenue Service reported that tip income for the United States was \$18 billion in 2003. If Missouri accounted for an average of 1.8% of the federal total, the state total would be \$324 million. The sales tax on that amount could be calculated as follows.

General Revenue Fund	3%	\$9,700,000
School District Trust Fund	1%	\$3,200,000
Conservation Commission Fund	1/8%	\$405,000
Parks, and Soil and Water Funds	1/10%	\$324,000
Local governments	Average 2.5%	\$8,100,000

Sales Tax Exemption on Game Birds

Officials from the **Office of the Secretary of State**, the **Department of Transportation**, the **City of West Plains**, and the **Special School District of St. Louis County** assumed a previous version of this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **Department of Conservation** (MDC) officials stated that as of 2008, there were 253 wildlife hobby permit holders, 523 wildlife breeder permit holders, and 254 game bird preserve permit holders. The game bird permit holders would most likely account for most of the sales transactions involving non-domestic game birds sold for hunting.

Officials from the **Department of Elementary and Secondary Education** (DESE) assumed a previous version of this proposal would have no fiscal impact on their organization and defer to the Department of Revenue for an estimate of the impact on state revenues.

Officials from the **Department of Revenue** assumed a previous version of this proposal would have no fiscal impact on their organization; however, DOR managers anticipate the proposal would cause an unknown negative impact on state revenues.

Officials from **Cass County** assumed a previous version of this proposal would have an unknown negative impact on their revenues.

Officials from **St. Louis County** assumed the loss to their organization from a previous version of this proposal would not be great.

Officials from the **Independence School District** stated they could not provide an estimate of the cost of a previous version of the proposal.

ASSUMPTION (continued)

Oversight was not able to locate aggregate information on non-domestic game birds sold for hunting; however, based on a limited review of industry practices, Oversight assumes that an individual bird may be sold at \$10 - \$15 but would more likely be sold as part of a package including admission to a game preserve, a guide, and dogs. However, if each permit holder sold 1,000 birds at \$15, sales would be (254 permit holders x 1,000 birds per game preserve x \$15 per bird) = \$3.8 million in sales. Sales tax on that amount could be computed as follows.

Entity	Sales Tax Rate	Sales Tax
General Revenue Fund	3%	\$114,000
School District Trust Fund	1%	\$38,000
Conservation Commission Fund	1/8%	\$4,750
Parks, and Soil and Water Funds	1/10%	\$3,800
Local governments	Average 2.5%	\$160,550

The sales tax exemption in this version of the proposal would apply to additional costs related to raising, maintaining, and selling game birds.

Oversight notes that industry billing practices could change to provide separate charges for birds as a result of the implementation of this proposal, and revenue reductions could be significantly greater.

Oversight will indicate a reduction in revenue greater than \$100,000 per year for the General Revenue Fund, for other state funds which receive sales tax revenues, and for local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue reduction - sales tax exemptions</u>	<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 - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENTS			
<u>Revenue reduction - sales tax exemptions</u>	<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 could have a direct fiscal impact to small businesses involved in hospitality or entertainment industries, where gratuities would be exempted by this proposal, and to small businesses involved with game birds for hunting purposes.

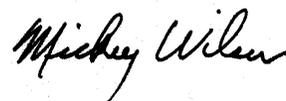
FISCAL DESCRIPTION

The proposed legislation would create a state and local sales tax exemption for gratuities, and for game birds sold for hunting.

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 Elementary and Secondary Education
Department of Labor and Industrial Relations
Department of Natural Resources
Department of Revenue
Department of Transportation
Cass County
Platte County
St. Louis County
City of Centralia
City of Kansas City
City of West Plains
Independence School District
Special School District of St. Louis County



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