

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0683-01  
Bill No.: HB 278  
Subject: Taxation and Revenue - Sales and Use; Annexation; Counties; Tourism  
Type: Original  
Date: February 15, 2011

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Bill Summary: Would implement the Streamlined Sales and Use Tax Agreement.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
General Revenue	(\$118,831) to More than \$100,000	(\$115,760) to More than \$100,000	(\$116,940) to More than \$100,000
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$118,831) to More than \$100,000</b>	<b>(\$115,760) to More than \$100,000</b>	<b>(\$116,940) to More than \$100,000</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 11 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
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
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
General Revenue	3	3	3
<b>Total Estimated Net Effect on FTE</b>	<b>3</b>	<b>3</b>	<b>3</b>

- 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
<b>Local Government</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>	<b>More than \$100,000</b>

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 the Secretary of State's Office 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 Conservation (MDC)** assume this proposal would implement the provisions of the Streamlined Sales and Use Tax Agreement.

MDC officials assume the fiscal impact is unknown, but greater than \$100,000. Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would have the following impact on their organization.

Section 32.070 would require DOR to enter into the streamlined sales and use tax agreement with one or more states to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and for all types of commerce. DOR would create the regulations necessary to implement the provisions of the Streamlined Sales Tax Agreement in Missouri.

Section 32.086 would require DOR to remit one percent (1%) of the tax collected to General Revenue. Remaining amounts would not be commingled with General Revenue but would be remitted to the local government or other taxing authority.

DOR officials noted and described a large number of additional provisions in the proposal regarding the administration of local sales and use taxes, and technical requirements for implementing the Streamlined Sales and Use Tax Agreement.

DOR officials assume this proposal would result in initial increases in sales tax collections and total state revenue between \$6 and \$10 million. Once fully implemented, the Streamlined Sales Tax Agreement should significantly increase sales tax collections and total state revenue.

Administrative cost

DOR and ITSD-DOR would need to make changes to various tax processing systems, and DOR would need to make changes to forms.

DOR officials assume that excise tax would require two additional FTE Revenue Processing Technicians I (Range 10, Step L) for return processing because Excise Tax would have to determine where each delivery was made in order to properly figure the sales tax to be deducted from refund claims. Some invoices may be for fuel delivered at the retail station and others may be for fuel delivered to other locations. The Department would also need to know if the fuel is delivered inside city limits or outside city limits or even if the retail station is inside or outside city limits. This would require a great deal of processing time and effort as many refund claims contain hundreds of invoices, which would need to be reviewed individually.

ASSUMPTION (continued)

DOR also assumes that Sales Tax would require one FTE additional Management Analyst Specialist I (Range 23, Step N). DOR does not envision an FTE impact for the Sales Tax area, but rule writing will create a significant impact for which we will need additional managerial assistance.

The DOR estimate of administrative cost to implement this proposal including three additional FTE and the related fringe benefits, equipment, and expense amounted to \$137,962 for FY 2012, \$144,229 for FY 2013, and \$145,719 for FY 2014.

**Oversight** assumes that the Streamlined Sales and Use Tax Agreement would apply primarily to retail transactions by sellers which do not currently have a physical location in the state. Those retailers which do not currently have a physical location in the state would be required to report taxable sales and remit sales tax on Missouri sales. This requirement would likely increase state sales tax collections but the number of current filers would not likely change. Therefore the proposal would not likely have a significant impact on Department of Revenue staffing for sales and use tax processing.

The proposal would require DOR to promulgate rules and take any action necessary to implement the provisions of the Streamlined Sales and Use Tax Agreement by January 1, 2012. This proposal would also require the state and every political subdivision to adopt, implement, and incorporate by reference all provisions contained within the streamlined sales and use tax agreement. Changes in state regulations would be required to eliminate current regulations which conflict with Streamlined Sales and Use Tax Agreement provisions. It would also appear that new DOR regulations would be required to reference the provisions of the Streamlined Sales and Use Tax Agreement on a statewide basis in order to preserve the uniformity of regulations applicable to all sales in the state.

Finally, Oversight notes that retail entities with a physical presence in the state are currently using a set of systems and procedures created and operated by DOR. If those retailers were permitted to use the Streamlined Sales and Use Tax Agreement reporting and payment systems, there could be a reduction in the number of returns filed and revenue collected under current procedures. That could allow a reduction in DOR resources applied to sales tax processing but the number of filers and the amount which might be collected can not be estimated, and that process would likely not begin until after FY 2014.

ASSUMPTION (continued)

Oversight will include three additional DOR employees in this fiscal note and has, for fiscal note purposes only, changed the starting salary for the new positions 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. Oversight has adjusted the DOR estimate of expense and equipment costs in accordance with OA budget guidelines, and assumes that a limited number of additional employees could be accommodated in existing office space.

**Oversight** also assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

IT cost

DOR officials also provided an estimate of the IT cost to implement the proposal. DOR officials estimated the cost at \$95,612 based on 3,608 hours to make programming changes to the sales tax processing system (MITS).

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

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

Officials from **Platte County** assume this proposal would allow Misosuri and Platte County to collect sales and use taxes on mail order and internet sales from all states participating in the Streamlined Sales and Use Tax Agreement. County officials also assume this proposal would impact their organization in a positive manner.

Officials from the **City of Kansas City** assume this proposal could have a positive fiscal impact on their organization but such impact is impossible to quantify.

ASSUMPTION (continued)

Officials from the **City of Richmond** provided a response to our request for information but did not include an estimate of the fiscal impact on their organization.

Officials from the **City of West Plains** assume this proposal could have a positive impact on the city of unknown amount.

Officials from the **Parkway School District** assume this proposal would not have a fiscal impact to their organization.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization. This proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement, to become effective Jan. 1, 2012.

BAP does not have an estimate of the sales tax revenues to be gained from this proposal, but notes that many sales that occur via e-commerce or other remote sellers would be subject to sales tax under this agreement. Two studies of the revenues that Missouri might gain from collecting sales tax on e-commerce provide an estimated range of \$108 million (Eisanach & Litan, Feb. 2010) and \$210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

This proposal would increase general and total state revenues, and local revenues. Section 32.086 would create a 1% collection fee for local sales taxes collected by DOR. This fee would be deposited in GR to offset DOR's costs. This will increase general and total state revenues by an unknown amount.

Officials from the **Department of Natural Resources** did not respond to our request for information.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will indicate additional revenue in excess of \$100,000 per year for those state funds that receive sales tax revenues, and for local governments. Oversight will include an unknown increase in collection fees to the General Revenue Fund for collection fees on local taxes not currently subject to the 1% withholding, and Oversight will include an unknown reduction to local governments for that additional withholding.

Oversight also notes that this proposal appears to require implementation of the Streamlined Sales Tax program by January 1, 2012. Accordingly, we have indicated additional revenues for FY 2012, and DOR costs to implement and operate the program for FY 2012.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
<b>GENERAL REVENUE FUND</b>			
<u>Revenue increase</u> - Streamlined Sales and Use Tax Agreement	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
<u>Revenue increase</u> - Collection fees withheld from local taxes	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Cost</u> - Department of Revenue			
Salaries - 3 FTE	(\$66,670)	(\$74,972)	(\$75,722)
Benefits	(\$34,895)	(\$39,241)	(\$39,633)
Equipment and expense	(\$17,266)	(\$1,547)	(\$1,585)
Total	<u>(\$118,831)</u>	<u>(\$115,760)</u>	<u>(\$116,940)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$118,831) to</u></b> <b><u>More than</u></b> <b><u>\$100,000</u></b>	<b><u>(\$115,760) to</u></b> <b><u>More than</u></b> <b><u>\$100,000</u></b>	<b><u>(\$116,940) to</u></b> <b><u>More than</u></b> <b><u>\$100,000</u></b>
Estimated Net FTE Effect on General Revenue Fund	3	3	3

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
<b>CONSERVATION COMMISSION FUND</b>			
Revenue increase - Streamlined Sales and Use Tax Agreement	<u>More than \$100,000</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>
<b>PARKS, AND SOIL AND WATER FUND</b>			
Revenue increase - Streamlined Sales and Use Tax Agreement	<u>More than \$100,000</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND</b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>
<b>SCHOOL DISTRICT TRUST FUND</b>			
Revenue increase - Streamlined Sales and Use Tax Agreement	<u>More than \$100,000</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>	<b><u>More than \$100,000</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
<b>LOCAL GOVERNMENTS</b>			
Revenue increase - Streamlined Sales and Use Tax Agreement	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
Revenue reduction - Collection charges to local governments	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<b><u>(Unknown) to</u> <u>More than</u> <u>\$100,000</u></b>	<b><u>(Unknown) to</u> <u>More than</u> <u>\$100,000</u></b>	<b><u>(Unknown) to</u> <u>More than</u> <u>\$100,000</u></b>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which would be required to report sales and to collect and remit Missouri sales and use tax under the agreement.

FISCAL DESCRIPTION

The proposed legislation would require the Department of Revenue to implement the Streamlined Sales and Use Tax Agreement..

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

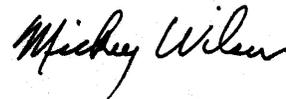
SOURCES OF INFORMATION

Office of the Secretary of State  
Department of Conservation  
Department of Revenue  
Department of Transportation  
Platte County  
City of Kansas City  
City of Richmond  
City of West Plains  
Parkway School District

NOT RESPONDING

**Office of Administration**  
**Division of Budget and Planning**  
**Department of Natural Resources**

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Mickey Wilson, CPA  
Director  
February 15, 2011