COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0226-01
Bill No.: SB 31
Subject: Taxation and Revenue-Income; Taxation and Revenue-Sales and Use
Type: Original
Date: January 14, 2013

Bill Summary: This proposal would increase the tax on cigarettes by twenty-six cents, modify the state individual income tax rate, and increase the state sales and use tax by one-half percent.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	Less than $70,606,192	($1,100,527,931)	($1,100,469,473)
Total Estimated Net Effect on General Revenue Fund	**Less than $70,606,192**	**($1,100,527,931)**	**($1,100,469,473)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
State Road	Less than $19,000,000	$38,000,000	$38,000,000
State Transportation Interstate	Less than $155,582,010	$311,640,021	$311,640,021
Total Estimated Net Effect on Other State Funds	**Less than $174,582,010**	**$349,640,021**	**$349,640,021**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	0	3	3
Total Estimated Net Effect on FTE	**0**	**3**	**3**

☒ 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 2014	FY 2015	FY 2016
Local Government	**Less than $3,500,000**	**$7,000,000**	**$7,000,000**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Attorney General** assume that any potential costs arising from this proposal could be absorbed with existing resources.

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.

ASSUMPTION (continued)

State Transportation Interstate Fund: Section 226.740, RSMo.

Officials from the **Department of Transportation (MoDOT)** assume this proposal would create the "State Transportation Interstate Fund" for the purpose of assisting in the reconstruction, rebuilding, construction and maintenance of Interstate 70. Proceeds from a sales and use tax increase of one - half percent would be deposited into the newly created fund.

The State Transportation Interstate Fund would be excluded from the restrictions under section 30.605 regarding interest and cost allocations, and lapsed balances. The State Road Fund, the Motor Fuel Tax Fund, the State Highways and Transportation Department Fund, the State Transportation Fund, and the State Road Bond Fund are already exempt from those requirements.

Moneys from the State Transportation Interstate Fund would not revert to the General Revenue Fund, and the General Assembly would appropriate funds from the State Transportation Interstate Fund for use by MoDOT for the purposes stated above.

Basd on information provided by the Office of Administration, Division of Budget and Planning, MoDOT has estimated that the half - cent additional sales tax for the State Transportation Interstate Fund would generate revenues of approximately $307 million annually, and the one - half cent additional motor vehicle sales and use tax would generate approximately $38 million for the State Road Fund, $4 million for cities, and $3 million for counties.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** provided information from their State and Regional Fiscal Studies Unit indicating that FY 2012 collections of General Sales and Use Tax were $1,869,840,125 at the current sales tax rate of 3 cents. EPARC officials estimated the impact of a an additional one - half cent tax by the following equation (rounded to nearest dollar): $1,869,840,125 / (.03/.005) = $1, 869,840,125 / 6 = $311,640,021 and noted that the proposal provides for that additional sales tax revenue to be deposited in the “State Transportation Interstate Fund”.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would create an additional 0.5% sales tax. In FY 2012, $1,873.3 million in General Revenue Fund sales tax was collected, at a 3% rate. The new tax would generate $312.2 million based on these taxable items for the new State Transportation Interstate Fund.

ASSUMPTION (continued)

In addition, the tax would apply to automobile sales. In FY 2012, $10.3 million was collected on autos in Conservation sales tax, at a 0.125% rate. The new tax would generate $41.4 million for highway purposes.

Therefore, this proposal would generate a total of $353.5 million annually. Considered alone, this proposal would exceed the limits prescribed in Article X, Section 18e.

Officials from the **Department of Revenue (DOR)** assume this proposal would provide an additional one - half cent sales tax increase, which would generate an additional $350 million per year to be deposited in the State Transportation Interstate Fund.

The Department is basing this estimate on the assumption that the drafter intended to also change the rate from 4 percent to 4.5 percent when there is no exchange of property. If these sales were intended to remain at 4 percent, a much smaller amount of revenue would be estimated, and a much higher Information Technology impact would be estimated.

Flat Income Tax Rate: Section 143.011, RSMo

Officials from the **Department of Revenue (DOR)** assume the reduction in the individual income tax rate to 4% would reduce state revenues. DOR officials have reviewed this proposal, but time constraints have not allowed a thorough analysis. Additional time is needed to provide a more precise estimate of the impact on state revenues, but DOR officials assume the change in the individual income tax rate would reduce revenues by more than $100 million. Any updated information will be forwarded as soon as it is available.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** note that this proposal would replace the current graduated income tax structure with a flat 4% rate on all taxable income. BAP officials assume this proposal would reduce general and total state revenues by an unknown amount, and will provide additional data as it become available.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** assume this proposal would replace the current individual income tax rates and brackets with a flat income tax at 4% of a filer's Missouri taxable income

ASSUMPTION (continued)

EPARC officials prepared a simulation of the impact of the income tax rate changes which indicated a reduction from the baseline Net Tax Due of $4,693.390 million to $3,451.812 million, a reduction of $1,241.578 million from the baseline.

Officials from the **Department of Transportation (MoDOT)** assume this proposal would repeal the current progressive income tax rate schedule and to replace it with a flat rate income tax of 4%, effective January 1, 2014. This provision would not have a direct fiscal impact on MoDOT.

Cigarette Tax: Section 149.015, RSMo

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would create an additional cigarette tax of $0.26 per pack, with funds dedicated to the General Revenue Fund. BAP officials provided calculations which assumed that the increased price of cigarettes with the additional tax would lead to reduced sales.

The BAP calculations below indicated this proposal could Increase General and Total State Revenues by about $125.7 million annually. Because it would be several weeks before revenues were actually received under this new tax, less than 50% of these revenues would be available in FY 2014.

	Current Tax (per pack)	Proposed Tax (per pack)
	$0.17	$0.43
Estimated Cost Per Pack	$4.50	$4.76
Estimated Sales Volume	521 million	498 million
Estimated Annual Revenue	$88.6 million	$125.7 million

Considered alone, this provision would exceed the limits prescribed in Article X, Section 18e.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume, based upon FY 2012 sales of approximately 536 million stamps, this increase would generate approximately $135 million dollars to be deposited into the General Revenue Fund after deducting the 3% allowance provided by statute. Because the effective date for this provision is January 1, 2014, the Department estimates the maximum amount of additional revenue that could be received in FY14 is less than $60 million.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** calculated the impact of an increase in the cigarette tax rate from seventeen cents per pack to forty-three cents per pack. Information from the United States Centers for Disease Control and Prevention (CDC) indicates that 2011 per capita consumption of cigarettes in Missouri is 91.1 packs per person. EPARC officials assume that increase in price per pack of cigarettes in this proposal would reduce the demand for cigarettes to approximately 89.961 packs per person. Using an estimated population of Missouri of 6,037,530 we can calculate the number of packs consumed by Missourians: 543,142,571 packs. Given this amount of cigarette consumption, an excise tax of forty-three cents per pack would generate $233,551,306 worth of revenue. At the previous rate of seventeen cents per pack, it would generate only $92,334,237. We can calculate the increase in revenue by subtracting $92,334,237 from $233,551,306. Therefore, the twenty-six cent increase in the excise tax on cigarettes, would lead to an increase in revenue of $141.217 million.

Officials from the **Department of Transportation (MoDOT)** assume this proposal would increase the current state tax on cigarettes by adding an addition tax equal to thirteen mills per cigarette effective January 1, 2014. This provision would not have a direct fiscal impact on MoDOT.

Oversight will use the EPARC estimates of revenue impact for this fiscal note, and will include the MoDOT estimate of additional revenue from vehicle sales taxes. Oversight notes that the individual income tax provisions become effective January 1, 2014 which indicates that the impact would first affect returns filed in January 2015, FY 2015. The sales tax and cigarette tax provisions become effective January 1, 2014 also, which indicates that less than one - half year of additional revenue would be expected in FY 2014.

Officials from the **Office of the State Treasurer** and the **Department of Public Safety, Division of Alcohol and Tobacco Control** each assume the proposal would not fiscally impact their respective agencies.

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ASSUMPTION (continued)

Administrative impact

Officials from the **Department of Revenue (DOR)** assume the Department would need to make form changes and update all sales tax rate charts and tables. Further, the Department and ITSD - DOR would need to make programming changes to various tax systems.

DOR officials assume Collections and Tax Assistance (CATA) would need one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the non-delinquent tax line. FTE requires CARES phone and license, one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional contacts annually to the delinquent tax line with a CARES phone and license, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the field offices, and one CARES phone and line would be needed for the Jefferson City Tax Assistance Center.

Notification of the excise tax rate change would need to be sent to approximately 120 cigarette wholesalers; (120 x $0.525 = $63.00)

Notification of the sales and use tax change would need to be sent to an estimated 150,000 taxpayers concerning the tax increase:

Letter	150,000 x $0.04	$ 6,000
Envelopes	150,000 x $0.025	$ 3,750
Mailing	150,000 x $0.46	$69,000
TOTAL		$78,750

Motor Vehicle Bureau procedures would need to be revised by a Management Analyst Specialist I requiring 40 hours of overtime at a cost of $1,206 in FY 2014, and the Department’s web site would need to be revised requiring 10 hours of overtime for an Administrative Analyst I, at a cost of $325 in FY 2014.

The sales tax changes could potentially result in additional unknown amount of delinquent fee phone call inquiries the Department receives resulting in additional FTE being requested.

ASSUMPTION (continued)

The DOR estimate of the cost to implement this proposal included an estimate of mailing costs for the required notifications, overtime for a Management Analyst and an Administrative Analyst, and three additional FTE. The estimate, including salaries, benefits, equipment, and expense, totaled $207,242 for FY 2014, $123,133 for FY 2015, and $124,436 for FY 2016.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for the first fiscal year could be reduced by roughly $6,000 per new employee.

Since the individual income tax portion of this proposal would become effective for tax years beginning January 1, 2014 it would first impact tax returns filed in January 2015 (FY 2015). Oversight will include six months personnel cost and the related expense and equipment cost for DOR in FY 2015, and the balance of the DOR costs beginning in FY 2014.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

IT Impact

DOR officials provided an estimate of the IT cost to implement this proposal of $86,019 based on 3,180 hours of programming to make changes to DOR systems.

FISCAL IMPACT - State Government	FY 2014 (6 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - cigarette tax increase Section 149.015	Less than $70,608,500	$141,217,000	$141,217,000
Revenue reduction - personal income tax rate change Section 143.011	$0	($1,241,578,000)	($1,241,578,000)
Cost - Department of Revenue			
Salaries (3.0 TE)	($1,531)	($34,704)	($70,102)
Employee benefits	($777)	($17,611)	($35,573)
Equipment and expense	$0	($114,616)	($2,798)
Total	($2,308)	($166,931)	($108,473)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Less than $70,606,192**	**($1,100,527,931)**	**($1,100,469,473)**
Estimated Net FTE effect on General Revenue Fund	0	3	3
STATE ROAD FUND			
Revenue - vehicle sales tax increase Section 226.740	Less than $19,000,000	$38,000,000	$38,000,000
ESTIMATED NET EFFECT ON STATE ROAD FUND	**Less than $19,000,000**	**$38,000,000**	**$38,000,000**
STATE TRANSPORTATION INTERSTATE FUND			
Revenue - sales tax increase Section 226.740	Less than $155,582,010	$311,640,021	$311,640,021
ESTIMATED NET EFFECT ON STATE TRANSPORTATION INTERSTATE FUND	**Less than $155,582,010**	**$311,640,021**	**$311,640,021**

FISCAL IMPACT - Local Government	FY 2014 (6 Mo.)	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Revenue - sales tax increase Section 226.740			
Cities	Less than $2,000,000	$4,000,000	$4,000,000
Counties	Less than $1,500,000	$3,000,000	$3,000,000
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**Less than $3,500,000**	**$7,000,000**	**$7,000,000**

FISCAL IMPACT - Small Business

This proposal would have a fiscal impact to small businesses which sell or distribute cigarettes, which are subject to income tax, or which have purchases or sales subject to sales or use tax.

FISCAL DESCRIPTION

This proposal would increase the excise tax on cigarettes from seventeen cents per pack to forty-three cents per pack beginning January 1, 2014. The revenue derived from the twenty-six cent increase would be deposited in the General Revenue Fund. This increased excise tax would not apply to cigarette inventory in the possession of retailers and wholesalers on December 31, 2013. The Department of Revenue would be required to quit collecting the additional excise tax immediately, if the Secretary of State certified any ballot issue that would increase any cigarette tax, and the Department of Revenue and the Revisor of Statutes would be required to notify the public that the additional tax is repealed.

The proposal would modify the individual income tax, so that the tax would be a flat rate of 4 percent beginning on January 1, 2014.

The proposal would also increases the state sales and use tax by one-half percent beginning on January 1, 2014. The revenue generated from the increase, except for the revenue directed by the Constitution to other purposes, is directed to a newly created fund to be used for the construction, reconstruction, rehabilitation, and maintenance of Interstate 70.

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FISCAL DESCRIPTION (continued)

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 Attorney General
Office of the Secretary of State
Office of the State Treasurer
Office of Administration
    Division of Budget and Planning
Department of Public Safety
    Division of Alcohol and Tobacco Control
Department of Revenue
Department of Transportation
University of Missouri
    Economic and Policy Analysis Research Center

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