COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0464-06
Bill No.: Perfected HCS for HB 521 & 579
Subject: Taxation and Revenue - Income; Revenue Department
Type: Original
Date: March 27, 2013

Bill Summary: This proposal would modify several provisions related to taxation and the collection of amounts due the state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(More than $9,383,000)	(Up to $64,583,000)	(Up to $110,682,000)
Total Estimated Net Effect on General Revenue Fund *	**(More than $9,383,000)**	**(Up to $64,583,000)**	**(Up to $110,682,000)**

*** Full implementation of the reduction in the corporate income tax rate would result in an estimated reduction of revenue of $122,850,000 in FY 2017.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 31 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	(Less than $100,000) to Unknown	Unknown	Unknown
Parks, and Soil and Water	(Less than $100,000) to Unknown	Unknown	Unknown
School District Trust	(Less than $100,000) to Unknown	Unknown	Unknown
Other	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds	**(Less than $100,000) to Unknown**	**Unknown**	**Unknown**

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	8 FTE	8 FTE	8 FTE
Total Estimated Net Effect on FTE	**8 FTE**	**8 FTE**	**8 FTE**

☒ 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 $516,667)**	**(Less than $600,000) to Unknown**	**(Less than $600,000) to Unknown**

FISCAL ANALYSIS

ASSUMPTION

Section 32.070, etc., RSMo. - Streamlined Sales Tax Program:

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. BAP officials provided the following analysis of the proposal.

This proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement; the proposal would become effective Jan. 1, 2015.

ASSUMPTION (continued)

Two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce provided 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.

BAP officials noted that remote sellers would be able to remit sales tax under this agreement and estimated that this proposal would generate at least $10 million in Total State Revenues annually, of which $7 million would be due to the General Revenue Fund. However, the full amount may not be collected during the first year, due to the administrative processes of becoming a full member state of the SSTA.

Oversight has reviewed the studies cited by BAP and we noted that there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were $26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that $8.7 billion was uncollected for the United States. If 1.8% of the $8.7 billion was due the state of Missouri, the additional revenue would amount to $156.6 million. The Eisenach and Litan report suggests only $3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be $70.2 million.

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

ASSUMPTION (continued)

Oversight was provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional $13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary; and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

The $13.7 million in additional collected would be due to the following state funds, and **Oversight** has also provided an estimate of additional revenues to local governments.

Entity	Tax Rate	
General Revenue Fund	3.000%	$9,738,000
School District Trust Fund	1.000%	$3,246,000
Conservation Commission Fund	0.125%	$324,600
Parks, and Soils Fund	0.100%	$405,800
Local Governments *	Average 3.800%	$12,334,900
Total	NA	$26,049,300

* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

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.

Section 32.086, RSMo. - Department of Revenue Collection Fee on Local Sales Taxes:

Officials from the **Department of Revenue (DOR)** assume this proposal would require DOR to remit one percent of the amount collected for all local sales and use taxes collected by the Department to the General Revenue Fund to offset the cost of collection, unless a greater amount is specified in the local sales and use tax law.

DOR officials did not include an estimate of the fiscal impact for this provision in their response; in addition, DOR officials did not provide an estimate of the administrative or IT cost for this provision.

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

BAP officials noted the provisions would create a 1% collection fee for local sales taxes collected by DOR. This fee would be deposited in the General Revenue Fund to offset Department of Revenue costs. This provision would increase General and Total State Revenues by an unknown amount.

Oversight notes that although most local sales taxes collected by the Department of Revenue are subject to a one percent collection charge, the proposal includes a provision which would make all local sales tax collections subject to the one percent charge.

Oversight will include unknown additional revenue for the 1% collection fee for the General Revenue Fund for FY 2014, FY 2015, and FY 2016, and a corresponding reduction in revenues for local governments, for the additional sales tax collection charges.

ASSUMPTION (continued)

Sections 142.815 and 144.030, RSMo - Motor Fuel and Sales Tax Exemptions:

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown negative impact on their organization in excess of $100,000 per year, as Conservation Sales Tax funds are derived from a one-eighth of one percent sales and use tax pursuant to the Missouri Constitution. Exempting motor fuel used in watercraft in this state from tax would reduce sales tax collected and reduce revenue to MDC. MDC officials deferred to the Department of Revenue for an estimate of the amount of sales and use tax.

Officials from the **Department of Natural Resources (DNR)** noted that this proposal would exempt motor fuel used in watercraft in the state from the motor fuel tax and from state sales tax. Since Parks and Soils Sales Tax Funds are derived from a one-tenth of one percent sales and use tax pursuant to the Missouri Constitution, any additional sales tax exemption would reduce the amount of funding available in the Parks & Soils Sales Tax Funds. DNR officials did not provide an estimate of the amount of sales and use tax.

Officials from the **Department of Transportation (MODOT)** deferred to the Department of Revenue for an estimate of the fiscal impact from this proposal.

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 exempt motor fuel used in watercraft from the motor fuel excise tax. This may reduce motor fuel revenues to the extent consumers are not already claiming refunds for such tax from the DOR. The fuel is currently exempt from sales tax, and would remain so under this proposal.

Officials from the **Department of Revenue (DOR)** noted that this provision would exempt motor fuel delivered to any marina within this state that sells such fuel solely for use in a watercraft, and is not accessible to other motor vehicles, from the fuel tax.

ASSUMPTION (continued)

DOR officials did not include an estimate of the fiscal impact for this provision in their response; in addition, DOR officials did not provide a discrete estimate of the administrative or IT cost for this provision. In response to similar provisions in HB 277, LR 0948 - 01, DOR officials assumed the proposal would not result in any fiscal impact to their organization. DOR officials also noted that the proposal would create a sales tax exemption for sales of motor fuel used in a watercraft.

DOR officials stated they currently distribute slightly more than $500,000 per year to counties for unclaimed gallonage, and that current refunds of motor fuel tax subject to sales tax are less than $10,000 per year.

Oversight notes that under current provisions, the Department of Revenue refunds motor fuel tax paid on fuel for watercraft but collects sales tax on that fuel. When fuel is sold to a marina and the motor fuel tax is not refunded, that unclaimed motor fuel tax is distributed to counties. The proposal would make all of that fuel exempt from motor fuel tax and sales tax.

For fiscal note purposes, Oversight will indicate a sales tax revenue reduction of less than $100,000 for the General Revenue Fund, for other state funds which receive general sales tax revenues, and for local governments. Oversight will also indicate a motor fuel tax revenue reduction of $500,000 per year for counties, and $416,667 for ten months in FY 2014.

Oversight assumes that the State Road Fund would have no impact since the proposal changes the disposition of motor fuel tax that is not currently used for road purposes.

Section 143.071, RSMo. - Corporate Income Tax:

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed the proposal would not result in additional costs or savings to their organization. BAP officials provided the following analysis of the proposal.

This proposal would reduce the corporate tax rate over three years, from 6.25% to 4.25%. In FY 2012, $275.6M in net corporate taxes was received. Notwithstanding any inflationary growth, this proposal would reduce General and Total State Revenues as in the chart below:

ASSUMPTION (continued)

Year	Corporate Tax Rate	Corporate Income Tax Revenue	Revenue Reduction
FY 2012	6.25%	$275.6	$0.0
FY 2014	5.50%	$242.5	$33.1
FY 2015	4.90%	$216.1	$59.5
FY 2016	4.25%	$187.4	$88.2

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** assume that this proposal, if enacted, would reduce the corporate income tax rate from 6.25% to 5.50% in 2014, to 4.90% in 2015, and then to 4.25% in 2016.

The latest 2010 corporate income tax data indicates an aggregate liability of $383.905 million. Using this figure as our baseline and reducing the corporate tax rate to 5.50%, the corporate tax liability would be reduced to $337.836 million for 2014; if the corporate tax rate was reduced to 4.90%, corporate tax liability would be reduced to $300.982 million for 2015; and if the corporate tax rate was reduced to 4.25%, corporate tax liability would be reduced to $261.055 million for 2016.

ASSUMPTION (continued)

Oversight will use the EPARC estimate of impact for the corporate income tax rate reductions. Oversight assumes the 2013 rate reduction would be reflected on 2013 tax returns filed in 2014 (FY 2014).

Year	Corporate Tax Rate	Corporate Tax Revenue	Reduction in Revenue
Baseline	6.25%	$383,905,000	NA
2014 (FY 2015)	5.50%	$337,836,000	$46,069,000
2015 (FY 2016)	4.90%	$300,982,000	$82,923,000
2016 (FY 2017 and following)	4.25%	$261,055,000	$122,850,000

Section 143.145, RSMo. - New Home Purchase Deduction

These provisions would create a one-time individual income tax deduction for the purchase of a new home used as the principal residence of the taxpayer for at least two years.

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.

BAP officials noted that this proposal would create a temporary tax deduction for the construction of a new single family residence, if that construction is started and completed between 8/28/13 and 12/31/15. The deduction would be limited to 1/3 of the purchase price or $166,667. Thus, at the full marginal 6% tax rate, the tax benefit would be limited to $10,000.

BAP officials cited US Census Bureau Building Permits Survey Monthly Data, noting that 9,452 permits for single family housing units were issued in Missouri in the 16-month time period that ended with November, 2012. BAP officials also noted that the US Census Bureau's American Community Survey indicates 65% of housing units are owner-occupied. Assuming the number of housing permits issued is comparable over the sixteen months included in this proposal, and the ratio of homeowners is similar, this proposal could reduce General and Total State Revenues by ((9,452 x 65%) = 6,144 home sales x $10,000) = $61.4 million.

ASSUMPTION (continued)

Oversight notes that the number of sales in the BAP response is for a sixteen month period and the indicated annual sales would be (6,144 x 12/16) = 4,608. The indicated annual revenue reduction would be ($61,400,000 x 12/16) = $46,050,000.

Officials from the **Department of Revenue (DOR)** did not include an estimate of the fiscal impact for this provision in their response; in addition, DOR officials did not provide a discrete estimate of the administrative or IT cost for this provision.

In response to similar provisions in a proposal from this session (HB 194, LR 0081-01) DOR officials responded that from January 1, 2013 to December 31, 2015, the proposal would allow a filer to claim a deduction for the purchase of a qualified principal residence. The deduction would equal the lesser of 1/3 of the purchase price of the qualified principal residence, or $166,667. If the deduction amount exceeded the filer's total Missouri Adjusted Gross Income for the year in which the deduction is claimed, any unused deduction could be carried forward to subsequent tax years.

If a filer disposes of that residence or no longer uses the property as a principal residence, any remaining unused deduction would be forfeited and the filer would be subject to an addition to Missouri adjusted gross income for amounts previously deducted.

DOR could create rules to implement the provisions of this section, and the program would sunset December 31, 2015 unless reauthorized by the General Assembly.

The Department would need to make form changes, and the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

Fiscal impact

DOR officials assumed the proposal would have an unknown negative impact on Total State Revenue. The deduction created by this proposal could be as great as $166,667 per claimant. If the full deduction of $166,667 is claimed by a qualified taxpayer, that taxpayer could have a tax reduction as large as $10,000. DOR officials cited a United States Census Bureau report which indicated that 369,000 new homes were sold in 2012. DOR officials assume that 2% of those homes, or 7,380 were sold in Missouri. If each new home purchase was eligible for the full deduction, it would have an annual impact of (7,380 x $10,000) = $73,800,000 per year.

ASSUMPTION (continued)

Administrative impact

DOR officials assumed Personal Tax would require two additional Temporary Tax Employees for key entry; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 19,000 errors; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 pieces of correspondence. In addition, Collections and Tax Assistance (CATA) would require one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional calls annually to the delinquent tax line, plus CARES equipment and license; one additional FTE Tax Collection Technician I (Range 10, Step L) per 15,000 additional calls annually to the non-delinquent tax line, plus CARES equipment and license; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the Tax Assistance Offices, plus CARES equipment and license.

The DOR response included two additional temporary employees, five additional full - time employees, and the related benefits, equipment, and expense. The estimated costs totaled $217,043 for FY 2014, $219,936 for FY 2015, and $222,242 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 fiscal year 2014 could be reduced by roughly $6,000 per new employee.

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 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.

Oversight notes that the earliest date to begin construction of a qualified new home under this proposal would be August 28, 2013, and assumes that a home could be completed and occupied by December 31, 2013. Since Missouri personal income tax returns are primarily filed on a calendar year basis and the qualifying construction dates are in 2013, the first deductions under this program could be claimed on 2013 income tax returns which would be filed in FY 2014.

ASSUMPTION (continued)

Oversight will include costs for the Department of Revenue for six months of FY 2014 and all of FY 2015 and FY 2016.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $13,633, based on 540 hours of programming to make changes to DOR systems.

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.

Oversight assumptions

Filers who would be able to purchase a home for $500,000 would be able to deduct one - third of that amount or $166,667 and would be able to reduce their income tax obligation by up to ($166,667 x .06) = $10,000. Oversight has used data provided by the University of Missouri, Economic Policy Analysis and Research Center to estimate the number of filers who would be able to take the maximum deduction available under this program; our estimate indicated that about 48,000 filers would have sufficient taxable income to do so.

According to Census Bureau data, the national average new home price was approximately $225,000 in 2011, and Oversight assumes that Missouri prices are consistent with the national average. Further, Oversight notes that there was little change in new home prices from 2011 to 2012. Under this proposal, the buyer of a new home could claim a deduction for one - third of the new home price or ($225,000 / 3) = $75,000 which would provide a reduction in the buyer's income tax up to ($75,000 x .06) = $4,500.

At the average new home sales price, the DOR estimate of new home purchases would indicate a revenue reduction of (7,380 x $4,500) = $33,210,000. The BAP estimate of new home purchases would indicate an annual revenue reduction of (4,608 x $4,500) = $20,736,000.

ASSUMPTION (continued)

Oversight notes that twenty-three claims at the average sales price would result in a revenue reduction of $100,000, and will include a revenue reduction in excess of $100,000 for FY 2014. For FY 2015 and FY 2016, Oversight notes that 222 claims at the average sales price would result in a revenue reduction of $1,000,000 (222 x $4,500). Oversight will indicate a revenue reduction in excess of $1 million per year for FY 2015 and FY 2016.

Oversight assumes some buyers could purchase a new home but not have sufficient taxable income to use the full deduction in one year; those buyers would be able to use the full deduction amount over a number of subsequent years. Accordingly, this program could result in revenue reductions for several years after FY 2016 but those amounts will not be included in this fiscal note.

Oversight notes that this program could result in greater sales tax revenues for the state and local governments, and could eventually result in greater local property tax revenues. Those additional revenues are considered an indirect impact and will not be included in this fiscal note.

Section 144.526 RSMo. - Show-Me Green Sales Tax Holiday:

This provision would terminate a sales tax holiday for energy - efficient home appliances as of December 31, 2013.

Oversight did not receive any responses regarding this provision and assumes this provision would result in an unknown revenue increase for FY 2014, FY 215, and FY 2016 for local governments and for state funds, other than road funds, which receive sales tax revenues.

Sections 144.010, 144.030, and 144.605, RSMo. - Sales and Use Tax

These provisions would modify current provisions regarding merchants required to collect and remit Missouri sales and use taxes.

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.

ASSUMPTION (continued)

BAP officials assume this proposal would expand the definition of "seller" and other related definitions, under sales tax law to include more out-of-state vendors doing business inside the state. BAP officials also noted that various studies have suggested Missouri is losing hundreds of millions of dollars in sales taxes on sales by out-of-state vendors, often via e-commerce. These changes would allow DOR to begin capturing taxes from some vendors that are currently unidentified. It would also make it easier to comply with the Streamlined Sales Tax Agreement.

BAP estimates this proposal would increase Total State Revenues by $10 million annually, of which $7 million would be deposited in the General Revenue Fund.

Officials from the **Department of Revenue (DOR)** did not include an estimate of the fiscal impact for this provision in their response; in addition, DOR officials did not provide a discrete estimate of the administrative or IT cost for this provision.

In response to similar provisions in a proposal from this session (HB 578, LR 106701), DOR officials assumed this proposal would modify the current definition of “engaging in business” in this state for sales and use tax purposes. This proposal would require approval by the General Assembly for any ruling, agreement, or contract between a person and this state's agencies exempting any person from collecting sales and use tax despite the presence of a warehouse, distribution center, or fulfillment center in this state that is owned or operated by the person or an affiliated person. An "affiliated person" would mean any person that is a member of the same "controlled group of corporations" as defined in Section 1563(a) of the Internal Revenue Code as the vendor.

The proposal would allow for the rebuttal of those presumptions by demonstrating that the person's activities in the state are not significantly associated with the vendor's ability to establish or maintain a market in this state for the vendor's sales.

A vendor would also be presumed to engage in business in the state if that vendor enters into an agreement with one or more residents of this state under which the resident, for a commission or other consideration, directly or indirectly refers potential customers, if the cumulative gross receipts from sales under such arrangements exceed ten thousand dollars during the preceding twelve months. The proposal would allow for the rebuttal of this presumption by submitting sworn written statements from all of the residents with whom the vendor has such an agreement.

ASSUMPTION (continued)

Fiscal impact

DOR officials assumed the proposal would generate increased revenue from sellers located outside the state.

Administrative impact

DOR officials assumed Collections and Tax Assistance (CATA) would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 8,300 additional registrations / maintenance to business tax accounts in Business Tax Registration; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 24,000 additional contacts annually to the registration phone line, with CARES equipment and agent license; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 contacts annually to the field offices, with CARES equipment and agent license.

The DOR response included three additional FTE along with the associated benefits, equipment, and expense, and totaled $123,042 for FY 2014, $122,613 for FY 2015, and $123,903 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 fiscal year 2014 could be reduced by roughly $6,000 per additional employee.

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.

ASSUMPTION (continued)

Oversight has not been able to locate any reliable information as to the potential impact of sales and use tax changes in this proposal other than the estimates provided by the Office of Administration - Division of Budget and Planning and the Department of Revenue.
For fiscal note purposes, Oversight will assume that revenues from this proposal would generate more new sales and use tax revenue than would be needed to provide the additional employees requested by the Department of Revenue. If revenues are not adequate to support the costs of collections, Oversight assumes the program would be terminated.

Oversight will indicate additional revenues greater than the DOR costs for the General Revenue Fund for these provisions. Oversight will indicate revenues greater than $100,000 per year for local governments and unknown additional revenues for the other state funds which receive general sales tax revenues. Oversight assumes the law changes in this proposal would not have an impact on motor vehicle or motor fuel sales and will not include any fiscal impact for transportation funds.

Proposal as a whole responses

Officials from **St. Louis County** assume this proposal would have a minimal fiscal impact on their organization.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Conservation** and the **Department of Natural Resources** deferred to the Department of Revenue for an estimate of the fiscal impact from these provisions.

ASSUMPTION (continued)

Amendment 1

Section 144.054 RSMo - Sales Tax Exemption for Fuel Used in Processing

Oversight assumes this provision would result in an an unknown revenue reduction for the General Revenue Fund and other state funds which receive sales tax revenues, except for road funds. Oversight also assumes this provision would result in an unknown revenue reduction for local governments.

Section 144.140 RSMo - Certified Service Provider:

Oversight notes that a certified service provider is a required part of implementing the Streamlined Sales Tax Act, and this provision would have no fiscal impact.

Amendment 1 to Amendment 1

Section 144.030, RSMo. - Sales Tax Exemptions:

This provision would add a sales tax exemption for all sales of kidney dialysis and enteral feeding systems.

Oversight assumes this provision would result in an an unknown revenue reduction for the General Revenue Fund and other state funds which receive sales tax revenues, except for road funds. Oversight also assumes this provision would result in an unknown revenue reduction for local governments.

ASSUMPTION (continued)

Amendment 2

Section 143.011, RSMo. - Personal Income Tax Rates:

This provision would require personal income tax rates for years beginning January 1, 2013 and after to be "adjusted annually for the increase in the cost of living as measured by the Consumer Price Index for All Urban Consumers for the United States".

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this provision would not result in any additional costs or savings to their organization.

BAP officials note this amendment would provide that income tax rates shall be adjusted based on the increase in the CPI. However, it is unclear how the rates are to be adjusted. Therefore, BAP cannot determine the impact on general and total state revenues that may result from this amendment.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume that after 2014 the taxable income classes as they apply to the Missouri personal income tax table would "be adjusted annually for the increase in the cost of living as measured by the Consumer Price Index for All Urban Consumers for the United States."

EPARC officials stated their forecast of CPI indicates annual growth of this index of approximately 1.8% per year. This anticipated growth rate was then applied to current tax brackets to provide bracket estimates for the tax years 2014-2016. The estimates were then rounded to the nearest $50 increment.

The EPARC simulations indicated total Net Tax Due for the baseline year, using 2011 tax data was $4,693.390 million. Total net tax due for the first year after indexing the tax rate brackets was $4,684.107 million, a reduction of $9.283 million; for the second year, total Net Tax Due was $4,674.876 million, a reduction of $18.514 million; for the third year, total Net Tax Due was $4,665.631, a reduction of $27.759 million.

Oversight will use the EPARC estimates of revenue reduction. Since the provision would require adjustments to be made beginning January 1, 2013, the first impact of the provision would be for 2013 tax returns filed beginning January, 2014.

ASSUMPTION (continued)

Amendment 4

Section 32.385, RSMo. - Debt offset agreement:

This provision would authorize the Department of Revenue and the Office of Administration to enter into a reciprocal debt offset with the federal government.

In response to similar provisions in HB 553 LR 1375-01 (2013), officials from the **Department of Revenue (DOR)** assumed the Director of Revenue and the Commissioner of Administration would have the authority to enter into reciprocal agreement with any other state which extends a like comity to this state to set off offset from state tax refunds and from payments otherwise due to vendors and contractors providing goods or services to state departments, agencies, or other state agencies nontax debt for debts due the other state that extends a like comity to this state.

Administrative impact

DOR officials assumed the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

Oversight notes that DOR did not indicate any cost for administration for these provision and assumes those costs would be minimal and could be absorbed with existing resources.

Fiscal impact

DOR officials estimated that as much as $2.0 million could be collected from increased offset authority with the federal government.

Oversight will include additional revenue in excess of $100,000 for the General Revenue Fund and unknown additional revenues for other state funds for these provisions.

IT impact

DOR officials provided an estimate of the IT cost to implement these provisions of $154,510 based on 5,712 hours of programming to make changes to DOR systems.

Oversight will include the DOR estimate of IT cost in this fiscal note.

ASSUMPTION (continued)

Officials from the **Office of Administration, Information Technology Services Division (ITSD)** assumed similar provisions in HB 553 LR 1375-01 (2013) would require additional processes to be added the disbursements cycle in the SAM II Financial Accounting system. These new processes would extract information on payments being made each day, transmit that information to the federal government, wait for a response back from them, and then process that information to intercept money owed to the federal government from state payments. Processes would also need to be developed to handle refunds and cancellations tied to payments that have been affected by the reciprocity process.

ITSD officials assumed that 480 hours of programming would be required based on all programming tasks being performed by current ITSD staff with no third-party contractor assistance being needed. This estimate addresses the level of effort needed to enter into a reciprocal agreement with the federal government only. It does not include any estimate of the level of effort needed to implement a similar agreement with another state or states as described in Section 8.

The ITSD estimate of cost for these provisions was $40,800 in FY 2014.

Oversight will include a cost greater than $40,800 for ITSD programming in this fiscal note.

In response to similar provisions in HB 553 LR 1375-01 (2013) officials from the **Office of the Secretary of State (SOS)** assumed 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)

In response to similar provisions in HB 553 LR 1375-01 (2013) officials from the **Joint Committee on Administrative Rules** assumed that the proposal would not have a fiscal impact to their organization in excess of existing resources.

In response to similar provisions in HB 553 LR 1375-01 (2013) officials from the **Office of the Attorney General** assumed that any potential costs arising from the proposal could be absorbed with existing resources.

FISCAL IMPACT - State Government	FY 2014	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - DOR			
Streamlined Sales Tax		More than	More than
Section 32.070, Etc	$0	$100,000	$100,000
Additional revenue - DOR			
1% collection fee			
Section 32.086	Unknown	Unknown	Unknown
Additional revenue - DOR			
Show-Me Green Sales Tax Holiday Terminated			
Section 144.526	Unknown	Unknown	Unknown
Additional revenue - DOR			
Enhanced nexus	More than	More than	More than
Sections 144.010, 144.030, and 144.605	$112,424	$107,294	$108,497
Additional revenue - DOR			
Debt offset	More than	More than	More than
Section 32.385	$100,000	$100,000	$100,000
Cost - DOR			
Enhanced nexus			
Sections 144.010, 144.030, and 144.605			
Salaries and wage	($57,840)	($69,408)	($70,102)
Benefits	($29,351)	($35,221)	($35,573)
Equipment and expense	($25,233)	($2,665)	($2,732)
Total costs - DOR	($112,424)	($107,294)	($108,407)
FTE change - DOR	3 FTE	3 FTE	3 FTE

FISCAL IMPACT - State Government (Continued)	FY 2014	FY 2015	FY 2016
Cost - DOR			
New home income tax deduction			
Section 143.145			
Salaries and wage	($65,640)	($131,280)	($132,593)
Benefits	($33,309)	($66,618)	($67,284)
Equipment and expense	($37,610)	($1,499)	($1,537)
Total costs - DOR	($136,559)	($199,397)	($201,414)
FTE change - DOR	5 FTE	5 FTE	5 FTE
Cost - DOR			
Debt offset			
Section 32.385	($154,510)	$0	$0
Cost - ITSD			
Debt offset			
Section 32.385	($40,800)	$0	$0
Revenue reduction - DOR			
Index personal income tax rates			
Section 143.011	($9,283,000)	($18,514,000)	($27,759,000)
Revenue reduction - DOR			
New home income tax deduction	(More than	(More than	(More than
Section 143.145	$100,000)	$1,000,000)	$1,000,000)
Revenue reduction - DOR			
Motor Fuel and Sales Tax Exemptions	(Less than	(Less than	(Less than
Sections 142.815 and 144.030	$100,000)	$100,000)	$100,000)
Revenue reduction - DOR			
Corporate tax rate			
Section 143.071 *		($46,069,000)	($82,923,000)
Revenue reduction - DOR			
Sales tax exemption for processing fuel			
Section 144.054	(Unknown)	(Unknown)	(Unknown)

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FISCAL IMPACT - State Government (continued)	FY 2014	FY 2015	FY 2016
Revenue reduction - DOR Sales tax exemption for medical supplies Section 144.030	(Unknown)	(Unknown)	(Unknown)
Cost - DOR Various provisions	(More than $100,000)	(More than $100,000)	(More than $100,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $9,383,000)**	**(Up to $64,583,000)**	**(Up to $110,682,000)**

*** This provision would lead to a revenue reduction of $122,850,000 in FY 2017 and subsequent years.**

Estimate Net FTE Effect on General Revenue Fund	8 FTE	8 FTE	8 FTE
CONSERVATION COMMISSION FUND			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	Unknown	Unknown
Additional revenue - DOR Enhanced nexus Sections 144.010, 144.030, and 144.605	Unknown	Unknown	Unknown
Additional Revenue - DOR Show-Me Green Sales Tax Holiday Terminated Section 144.526	Unknown	Unknown	Unknown
Revenue reduction - DOR Sales tax exemption for processing fuel Section 144.054	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - State Government (continued)	FY 2014	FY 2015	FY 2016
Revenue reduction - DOR Sales tax exemption for medical supplies Section 144.030	(Unknown)	(Unknown)	(Unknown)
Revenue reduction - DOR Motor Fuel and Sales Tax Exemptions Sections 142.815 and 144.30	(Less than $100,000)	(Less than $100,000)	(Less than $100,000)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**(Less than $100,000) to Unknown**	**Unknown**	**Unknown**
PARKS, AND SOIL AND WATER FUND			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	Unknown	Unknown
Additional revenue - DOR Enhanced nexus Sections 144.010, 144.030, and 144.605	Unknown	Unknown	Unknown
Additional Revenue - DOR Show-Me Green Sales Tax Holiday Terminated (Section 144.526)	Unknown	Unknown	Unknown
Revenue reduction - DOR Sales tax exemption for processing fuel Section 144.054	(Unknown)	(Unknown)	(Unknown)
Revenue reduction - DOR Sales tax exemption for medical supplies Section 144.030	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - State Government (continued)	FY 2014	FY 2015	FY 2016
Revenue reduction - DOR Motor Fuel and Sales Tax Exemptions Sections 142.815 and 144.030	(Less than $100,000)	(Less than $100,000)	(Less than $100,000)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**(Less than $100,000) to Unknown**	**Unknown**	**Unknown**
SCHOOL DISTRICT TRUST FUND			
Additional Revenue - DOR Streamlined Sales Tax Section 32.070, Etc.	$0	Unknown	Unknown
Additional revenue - DOR Enhanced nexus Sections 144.010, 144.030, and 144.605	Unknown	Unknown	Unknown
Additional Revenue - DOR Show-Me Green Sales Tax Holiday Terminated Section 144.526	Unknown	Unknown	Unknown
Revenue reduction - DOR Sales tax exemption for processing fuel Section 144.054	(Unknown)	(Unknown)	(Unknown)
Revenue reduction - DOR Sales tax exemption for medical supplies Section 144.030	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - State Government (continued)	FY 2014	FY 2015	FY 2016
Revenue reduction - sales tax			
Motor Fuel and Sales Tax Exemptions Sections 142.815 and 144.030	(Less than $100,000)	(Less than $100,000)	(Less than $100,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(Less than $100,000) to Unknown**	**Unknown**	**Unknown**
OTHER STATE FUNDS			
Additional revenue - DOR			
Debt offset Section 32.385	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Local Government	FY 2014	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Additional Revenue - DOR			
Streamlined Sales Tax Section 32.070, Etc	$0	More than $100,000	More than $100,000
Additional revenue - DOR			
Enhanced nexus Sections 144.010, 144.030, and 144.605	Unknown	Unknown	Unknown

FISCAL IMPACT - Local Government (continued)	FY 2014	FY 2015	FY 2016
Additional Revenue - DOR Show-Me Green Sales Tax Holiday Terminated Section 144.526	Unknown	Unknown	Unknown
Revenue reduction - DOR Motor Fuel and Sales Tax Exemptions Sections 142.815 and 144.030	(Less than $100,000)	(Less than $100,000)	(Less than $100,000)
Revenue reduction - DOR Unclaimed gallonage Section 142.815	($416,667)	($500,000)	($500,000)
Revenue reduction - DOR Sales tax exemption for processing fuel Section 144.054	(Unknown)	(Unknown)	(Unknown)
Revenue reduction - DOR Sales tax exemption for medical supplies Section 144.030	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Less than $516,667)**	**(Less than $600,000) to Unknown**	**(Less than $600,000) to Unknown**

FISCAL IMPACT - Small Business

Section 320.070, RSMo. etc. - These provisions could have a direct fiscal impact to small businesses which would be eligible and apply for the amnesty program.

Section 143.071, RSMo. - This provision could have a direct fiscal impact to a small business which is subject to the corporate income tax.

Various sections - These provisions could have a direct fiscal impact to a small business which is eligible for the tax exemptions.

FISCAL DESCRIPTION

This proposal would make several changes to various tax provisions.

* The proposal would require the state and local governments to implement the Streamlined Sales Tax Act.

* The proposal would allow the Department of Revenue to retain 1% of the amount of any local sales or use taxes collected by the department, to compensate for the cost of collection.

* The proposal would make motor fuel for use in watercraft exempt from motor fuel tax and sales tax.

* The proposal would provide gradually reduced rates for Missouri corporate income tax.

* The proposal would allow a deduction for the cost of a qualified new home purchase.

* The Show-Me Green Sales Tax Holiday would be terminated as of December 31, 2013.

* Sales tax exemptions would be created for fuel used in processing materials and specified medical supplies.

* Personal income tax rates would be indexed to inflation.

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FISCAL DESCRIPTION (continued)

* The Department of Revenue and the Office of Administration would be authorized to enter into reciprocal debt offset agreements.

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
    Division of General Services
Department of Agriculture
Department of Conservation
Department of Economic Development
Department of Elementary and Secondary Education
Department of Insurance, Financial Institutions, and Professional Registration
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
University of Missouri
    Economic and Policy Analysis Research Center
City of Kansas City

Ross Strope
Acting Director
March 27, 2013

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