COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0783-01
Bill No.: HJR 25
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Revenue Department
Type: Original
Date: March 5, 2013

Bill Summary: This legislation proposes a constitution amendment eliminating income tax in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	$0 or (More than $7,110,701)	$0 or ($8,117,967)	$0 or $768,624
Total Estimated Net Effect on General Revenue Fund	**$0 or (More than $7,110,701)**	**$0 or ($8,117,967)**	**$0 or $768,624**

* Estimated Net Effect to the General Revenue in FY `17 and beyond from the tax changes is ($790,452,610). Also, DOR staff reductions are outside the scope of this fiscal note.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Various State Funds	$0	$0 or ($138,516,108)	$0 or ($277,032,216)
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or ($138,516,108)**	**$0 or ($277,032,216)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 17 pages.

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	0 or 170 FTE	0 or 170 FTE
Total Estimated Net Effect on FTE	**0**	**0 or 170 FTE**	**0 or 170 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	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Economic & Policy Analysis Research Center** state upon voter approval, this proposed constitutional amendment would phase-out the state individual income tax by 2017. In order to compensate for lost revenue from the repeal of individual income tax, this amendment would gradually increase the state sales tax rate through 2017, and utilize this increased tax rate to tax not only the current sales tax base but tax food and services as well. It would deposit these funds into General Revenue, where it provides for a transfer from General Revenue into the School District Trust Fund the amount of revenue lost from the repeal of Proposition C and associated Motor Vehicle taxes. It would preserve the excise taxes on tobacco and alcohol, aviation fuel, insurance premiums, and any taxes imposed and distributed into the Conservation, Parks & Soils and Motor Fuel Funds. It would allow counties and other political subdivisions to enact an individual income tax on the income of its taxpayers, as long as the appropriate legislation is enacted by 2013 and “lawfully renewed” by its voters. Regarding property taxes, this amendment would provide for a “mechanism for the continuation of any property tax relief available to senior citizens and disabled individuals” that was previously provided in the form of an income tax credit, plus allow for an additional “property tax relief credit” for excessive increases in assessed evaluation above designated limits.

Note: We are currently unable to estimate the impact of allowing counties and other political subdivisions to enact an individual income tax upheld by the vote of its constituents. As well, we are unable to estimate the extent of an additional “property tax relief credit” for excessive increases in assessed evaluation. However, the impact of the remaining parts of this legislation is estimated below.

Impact on General Revenue:
Individual Income Tax: This constitutional amendment proposes to reduce the individual income tax rate to a maximum of 3% in 2015, and then allow no tax on individual income in 2017. The individual income tax for Missouri in 2011 was used as a baseline for our analysis, where Net Tax Due is $4,693,390,000. The simulation results for a 3% flat tax rate on individual income for 2015 decreased this to $2,564,712,000. In 2017, Net Tax Due would equal $0.

Property Tax Credits: Although we are unable to estimate the amount of “property tax relief credits” for excessive increases in assessed evaluation, we do know the amount of Circuit Breaker Tax Credits that will be provided for under a new property tax relief program.

ASSUMPTION (continued)

Using the latest individual income tax data (2011), we estimate this amount to be $110,049,803.

Tax on Sales and Services: In order to compensate for this loss of income tax revenue, in 2015 this amendment would repeal all sales and use taxes within the scope of General Revenue and replace it with a tax on sales and services at a rate of 5%, and then in 2017 increase this rate to 7%.

Our baseline for tax collections from a tax on the sales of goods was taken from the reported State Sales and Use Tax collections for the General Sales and Use Tax in the Missouri Department of Revenue's Annual Financial and Statistical Report for Fiscal Year 2011. This report shows General Sales and Use Tax collections of $1,808,195,530. These collections were generated from a 3% tax rate. From this we can estimate the current sales of goods base at $60,273,184,333. If we multiply this base by 5%, we can estimate the 2015 sales tax collections on these goods equal to $3,013,659,217. If we multiply this base by 7%, we can estimate the 2017 sales tax collections on these goods equal to $4,219,122,903.

This amendment proposes a 4% sales tax on food in 2015, increasing in 2017 to 5.5%. We estimate Missourians spend $6,911,221,513 on food. Multiplying this base by 4% we estimate the 2015 sales tax collections on food equal to $276,448,861. Multiplying this base by 5.5% we estimate the 2017 sales tax collections on food equal to $380,117,183. An estimate for the tax collections from a tax on services requires us to estimate the tax base for services in Missouri. Accounting for exempt services as stipulated in section 1(f) of this proposed amendment, we estimate the tax base on such services at $24,794,351,990. If we multiply this base by 5%, we can estimate the 2015 tax collections on services equal to $1,239,717,600. If we multiply this base by 7%, we can estimate the 2017 tax collections on services equal to $1,735,604,639.

Motor Vehicles: In addition, the proposed amendment repeals the Highway Use and Motor Vehicle taxes (non-general revenue taxes). However, when it enacts the new tax on sales of goods and services, the sales of motor vehicles is taxed at the proposed new rates and is collected in General Revenue. The amendment stipulates that the "sales of personal property for which a sales or use tax has been collected due to a prior taxable transaction" are exempt from the new sales tax. Therefore, only the sale of new motor vehicles is taxed. We estimate that Missourians spend $3,304,828,269 annually on new motor vehicles.

ASSUMPTION (continued)

At a 5% tax rate, we estimate the collections generated on the sales of new motor vehicles in 2015 to be $165,241,413. At a 7% tax rate, we estimate the collections generated on the sales of new motor vehicles in 2017 to be $231,337,979.

School District Trust Fund: The proposed amendment requires that collections from the new tax of sales and services be deposited in General Revenue, except a portion that will be deposited into the School District Trust Fund, a non-general revenue fund whose tax was also repealed within this amendment. The amount deposited in this fund will be equivalent to the average collections of the fund for the fiscal years 2009 to 2013. We will use the average for fiscal years 2009 to 2011 for our estimate for 2015 and 2017. We calculated this average from the Missouri Department of Revenue's Annual Financial and Statistical Reports for those years at $231,337,981. The following table displays the estimates generated for the impact on General Revenue and calculates the Change in Net General Revenue for 2015 and 2017:

	2011 BASELINE	2015 Food @ 4% Other Sales @ 5% Income @ 3%	2017 Food @ 5.5% Other Sales @ 7% No Income Tax
Tax on Current Sales Base	$1,808,195,530	$3,013,659,217	$4,219,122,903
Tax on Food	-	$276,448,861	$380,117,183
Tax on Service	-	$1,239,717,600	$1,735,604,639
New Motor Vehicles	-	$165,241,413	$231,337,979
Individual Income Tax/ Circuit Breaker	$4,693,390,000	$2,564,712,000	$(110,049,803)
School District Trust Funds to Non-General Revenue	-	$(744,999,981)	$(744,999,984)
Total	**$6,501,585,530**	**$6,514,779,110**	**$5,711,132,920**
Change in Net Revenue	-	$13,193,580	$(790,452,610)

ASSUMPTION (continued)

Impact on Non-General Revenue:
Tax on Sales and Services: The proposed amendment exempts several non-general revenue collections from the repeal of the sales and use tax. These include local taxes authorized for local purposes, excise taxes on tobacco and alcohol, and taxes on aviation fuel, insurance premiums, and any taxes collected for the Conservation, Parks & Soils, and Motor Fuel Funds. Baseline figures for Aviation Jet Fuel, Tobacco, Conservation, Parks & Soils, Education, Highway Use, and Motor Vehicles were obtained from the Missouri Department of Revenue's Annual Financial and Statistical Report for Fiscal Year 2011. Baseline figures for Alcohol, Insurance Premiums, and Motor Fuel were obtained from the EPARC database.

This proposed amendment stipulates that tax rates will adjust in 2015 for the Conservation and Park & Soils Funds so that collections will be equivalent to the collection average of fiscal years 2009 to 2013. Thereby, the 2015 and 2017 estimates for collections for the taxes associated with the Conservation and Park & Soils funds were calculated from the average collections of those funds from fiscal years 2009 to 2011. The estimates for the Baseline, 2015 and 2017 collections for the tax on Aviation Jet Fuel, Tobacco, Alcohol, Insurance Premiums, and Motor Fuel remain constant for our analysis.

Motor Vehicles: As stated above, the proposed amendment repeals the Highway Use and Motor Vehicle taxes and allows the taxation on the sale of new motor vehicles to be collected into General Revenue.

School District Trust Fund: Although the proposed amendment repeals the "Proposition C" sales tax and the associated motor vehicle tax funding the School District Trust Fund, the School District Trust Fund within non-general revenue will receive a transfer from General Revenue for equivalent funds.

The following table displays the estimates generated for the impact on Non-General Revenue and calculates the Change in Net Non-General Revenue for 2015 and 2017:

ASSUMPTION (continued)

Non-General Revenue			
	2011 BASELINE	2015 New Tax @ 5%	2017 New Tax @ 7%
Aviation Jet Fuel	$4,669,303	$4,669,303	$4,669,303
Tobacco	$105,517,399	$105,517,399	$105,517,399
Alcohol	$33,731,693	$33,731,693	$33,731,693
Insurance Premiums	$210,417,856	$210,417,856	$210,417,856
Motor Fuel	$720,079,308	$720,079,308	$720,079,308
Conservation S&U	$86,358,510	$86,358,510	$86,358,510
Conservation MV	$9,056,071	$9,056,071	$9,056,071
Parks & Soil S&U	$69,085,639	$69,085,639	$69,085,639
Parks & Soil MV	$7,244,869	$7,244,869	$7,244,869
Education S&U	$685,534,045	-	-
Education MV	$61,470,494	-	-
Highway Use	$67,756,422	-	-
Motor Vehicles	$207,271,236	-	-
School District Trust Funds from General Revenue	-	$744,999,981	$744,999,981
Total	**$2,268,192,845**	**$1,991,160,629**	**$1,991,160,629**
Change in Net Non-General Revenue		$(277,032,216)	$(277,032,216)

ASSUMPTION (continued)

Impact on Local Sales Taxes:
Under the proposed amendment counties and other political subdivisions will be required to modify their local sales tax base in 2014 to include the items and services included in the new state tax on sales and services. They will then be required to recalculate their local sales tax rates in order to generate collections equal to the average annual collections in the five calendar years 2010-2014. We interpret this language within the amendment to have a revenue neutral impact on local sales taxes.

Conclusion:
If approved by the voters, we estimate that this constitutional amendment would increase Net General Revenue by $13,193,580 and decrease Net Non-General Revenue by $277,032,216 in 2015. In 2017 it would decrease Net General Revenue by $790,452,610 and decrease Net Non-General Revenue by $277,032,216. The impact this amendment would have on Local Sales Taxes is assumed to be revenue neutral. As noted above, we are unable to estimate the impact of allowing counties and other political subdivisions to enact an individual income tax upheld by the vote of its constituents as well as estimate the extent of an additional "property tax relief credit" for excessive increases in assessed evaluation.

Each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Officials from the **Office of the Secretary of State** assume unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2, RSMo, requires the state to pay the costs. The cost of the special election has been estimated to be $7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

The Secretary of State's Office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's Office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.3 million historically appropriated in odd numbered fiscal years and $100,000

ASSUMPTION (continued)

appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost $2.17 million to publish (an average of $434,000 per issue). Therefore, the Secretary of State's Office assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2014. This reflects the decision made by the Joint Committee on Legislative Research, that the potential cost of elections should be reflected in the fiscal note. The next scheduled general election is in November 2014 (FY 2015). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2014.

Officials from the **Office of the Secretary of State** also state this legislation will require the Department of Revenue to promulgate rules. These rules will be published by our division in the *Missouri Register* and the *Code of State Regulations*. Based on experience with other divisions, and current rules of the Department of Revenue regarding income tax and sales tax, the rules, regulations, and forms issued by the Department of Revenue could require as many as 174 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the *Code of State Regulations* because cost statements, fiscal notes, and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is $23.00. The estimated cost of a page in the *Code of State Regulations* is $27.00, and the total is $10,701. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends on the frequency and length of rules filed, amended, rescinded, or withdrawn.

Officials from the **Office of Administration - Office of Administration - Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to the Division of Budget and Planning. BAP notes that the repeal of the state individual income tax will reduce general and total state revenues by an estimated $4,913,900,000 based on FY`12 net receipts.

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ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state the FTE impact for the processing area in fiscal year 2015 is based on a nine-month cycle. The Department must have personnel fully trained as of January 1, 2014. The Department will need to hire and begin training temporary staff in October 2013. For fiscal year 2014, the Department assumes no additional full-time employees will be needed. This legislation will have a significantly larger impact on the Department if we are required to collect the tax from the person consuming, using or storing the tangible personal property or taxable service.

Personal Tax:

FY 14 – Personal Tax will retain 100% of existing staff to continue the processing and collection duties of individual income tax.

FY 15 - Personal Tax will retain 100% of existing staff to continue the processing and collection duties of individual income tax.

FY 16 – Personal Tax will retain 100% of existing staff for the first six months to continue the processing and collection duties of individual income tax

Collections & Tax Assistance (CATA):

FY 15 - Based on the presumption of doubling the number of businesses, for registration, contacts, and collection efforts –CATA will need an additional 150 temporary employees including CARES phones & licenses. (CATA's FY11 sales use tax and registration FTE impact was 75). Training will begin in October of 2014.

FY 16 - Anticipate CATA could reduce 15% of the temporary employees due to a decline in income, withholding and corporate tax accounts

Corporate/Withholding Tax:
Eliminating corporate income, corporate franchise and bank franchise tax would not suddenly eliminate the filing of returns. Fiscal year 2013 corporation income/franchise tax returns are due throughout the year depending on their fiscal year end. The latest possible extended due date for a FY 13 return would be due on September 15, 2015. Also corporations continue to file amended returns for prior years as the IRS continues to make changes to their return.

ASSUMPTION (continued)

Corporate Tax Section:

FY 15 - 100% of existing staff will need to be retained in the Corporate Tax Section to continue the processing and collection duties of corporate income/franchise tax and financial institutions tax.

FY 16 - 100% of existing staff will need to be retained in the Corporate Tax Section to continue the processing and collection duties of corporate income/franchise tax and financial institutions tax.

FY 17 - 79% of existing staff will need to be retained in the Corporate Tax Section (19 out of 24 FTE) to continue the processing and collection duties of corporate income/franchise tax.

Withholding and Financial Institutions Tax Section:
For fiscal years 2014, 2015 and 2016 - 100% of existing 13 withholding staff will be needed to be retained in the Withholding Tax Section to continue the processing and collection duties of withholding tax and financial institutions tax

Sales, Excise and Business Tax:
The following impact is based upon the assumption that the workload for sales/use tax will double because of the additional filers. Based upon FY10 program costs, which include processing, correspondence, error correction, refunds, etc., business tax will need an additional 92 temporary employees for sales/use tax. The Department assumes that although the new sales tax will go into effect January 1, 2015, a portion of current staff responsible for corporate tax will not be available for reallocation until FY17 and withholding & personal tax staff will not be available for reallocation until the last half of FY 20, and even then, it may be only a fraction of the employees. Therefore, temporary staff will be needed until the current staff can be reallocated. If the number of new filers should more than double, the amount of additional resources will increase proportionately

FY 15 – Business tax will need 92 temporary employees and will receive benefits this fiscal year. Training will begin in October 2013.

FY 16 – Business Tax will still need 92 temporary employees.

FY 17 – Business tax anticipates receiving a portion of staff responsible for corporate tax numbering 5 employees. 87 temporary employees would still be needed.

ASSUMPTION (continued)

One (1) Economist (Range 20, Step Q)

The following are among the many items that are not currently taxable under the existing sales tax law, but will become taxable under this proposal:

Prescription drugs
Doctor, dentist, and veterinary services
Purchases by not-for-profits
Hospital charges
Insurance premiums
Child care
Motor fuel (at present, it is only subject to the state excise tax)
Food (at present, food is subject to a reduced sales tax rate)
Residential rentals
Home improvements and repair

Field Compliance :
In fiscal year 2010, Field Compliance conducted 2,350 sales and use tax audits. In order to conduct approximately 4,700 sales and use tax audits, it will be necessary to double our audit enforcement staff. This will require additional instate and out of state personnel. Currently, Field Compliance has 160 assigned positions with an approximate payroll of $7.4 million.

The addition of 160 new positions will increase Field Compliance to 320 positions and a payroll of approximately $14 million.

Each additional employee will have start up costs which include a new computer, file cabinet, desk, chair, side chair, calculator, and on-going supplies. The approximate cost for 160 new employees would be $454,080. The travel and operating budget could potentially double by moving the budget from $400,000 to potentially $800,000. This will bring the approximate Expense and Equipment cost to approximately $1.2 million.

Each in-state and out of state facility will need to be moved to accommodate the increase in personnel. The estimated cost for this will double fiscal year 2010's amount of $450,000 to $900,000.

ASSUMPTION (continued)

Legal Services:

FY 15 – Based on the presumption of doubling the number of businesses licensed to collect and remit sales tax, there will be a substantial increase in the caseload. The income tax cases will decrease over time, but they will continue for the next few years.

Legal services will need to add six (6) additional attorneys, one (1) senior office support assistant- keyboarding, and two (2) support staff.

Officials from the **Department of Agriculture** defers to Office of Administration for the fiscal impact to their organization.

Officials from the **Department of Elementary and Secondary Education** defers to Department of Revenue for the fiscal impact to their organization.

Officials from the **Joint Committee on Administrative Rules** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Missouri Gaming Commission**, **Department of Insurance, Financial Institutions and Professional Registration**, **Missouri Lottery Commission** and **Missouri State University** each assume the proposal will have no fiscal impact on their respective organizations.

***Oversight** notes that EPARC reports Net Loss to General Revenue for FY `17 at ($790,452,610); however, because FY `17 is beyond the scope of the fiscal note, this amount will be reflected in a footnote.

Oversight will range all of the fiscal impact of this resolution from $0 (the resolution is defeated in the vote), to the fiscal impact estimated by EPARC.

If approved by voters, the effective date of the income tax and sales tax changes is January 1, 2015. Therefore, for simplicity, **Oversight** will reflect six months of potential impact in FY 2015. The first full year of impact from the changes would be in FY 2016.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Revenue - Sales Tax	$0	$3,257,389,555	$6,514,779,110
Loss - Income Tax	$0	($3,250,792,765)	($6,501,585,530)
Change in Net Revenue	**$0**	**$6,596,790**	**$13,193,580**
Cost - SOS Publishing Missouri Register and Code of State Regulations expense	($10,701)	$0	$0
Cost - DOR			
Temporary Tax Employees (242)	$0	($1,429,857)	($1,760,221)
Personal Service	$0	($6,700,142)	($6,767,143)
Fringe Benefits	$0	($3,399,987)	($3,433,987)
Expense and Equipment	$0	($3,184,771)	($463,605)
Total Cost - DOR	$0	($14,714,757)	($12,424,956)
FTE Change - DOR	0	170	170
Transfer Out - Office of the Secretary of State - reimbursement of local election authorities for election costs **if** a special election is called	$0 or (More than $7,100,000)	$0	$0
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 or (More than $7,110,701)**	**$0 or ($8,117,967)**	**$0 or $768,624**
Estimated Net FTE Change for the General Revenue Fund	0 FTE	0 or 170 FTE	0 or 170 FTE

OTHER STATE FUNDS

Revenue - Various State Funds	$0	$995,580,315	$1,991,160,629
Loss - Various State Funds	$0	($1,134,096,423)	($2,268,192,845)
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	**$0**	**$0 or ($138,516,108)**	**$0 or ($277,032,216)**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL ELECTION AUTHORITIES			
Transfer In - Cost reimbursement from the State for special election	$0 or More than $7,100,000	$0	$0
Expense - Cost for special election	$0 or (More than $7,100,000)	$0	$0
ESTIMATED NET EFFECT TO LOCAL ELECTION AUTHORITIES	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses will no longer be required to pay income tax, franchise tax or withhold earnings from individual's income.

FISCAL DESCRIPTION

Upon voter approval, this proposed constitutional amendment phases out the state individual income tax and replaces the current state sales and use tax with a state sales tax on retail sales of new tangible personal property and taxable services. From January 1, 2015, to January 1, 2017, FISCAL DESCRIPTION (continued)

the state individual income tax rate cannot exceed 3%. After that date, the individual income tax is repealed. From January 1, 2015, to January 1, 2017, the state sales tax rate cannot exceed 5% and cannot exceed 4% for food. After that date, the sum of the rate on food and the rate for the conservation sales tax and the parks and soils sales tax cannot exceed 5.5%. From January 1, 2015, to January 1, 2017, the state sales tax rate cannot exceed 5%. After that date, the sum of the rate and the rate for the conservation sales tax and the parks and soils sales tax cannot exceed 7%.

The tax revenue from the new sales tax will be deposited into the General Revenue Fund and appropriated by the General Assembly to provide continued funding for programs and deposited into the School District Trust Fund in the amount needed so that the moneys received by the school districts is at least as much as the average of the amount received in fiscal years 2009 to 2013. The General Assembly may increase taxes or fees in the event of an emergency. Property purchased to be a component part or ingredient of a new tangible personal property to be sold at retail; government purchases including federal, state, and local governments; purchases of inventory; real property transactions; purchases of utilities; purchases of medical services including medications; purchases of professional services; purchases of child care and elderly care; purchases between consolidated entities; purchases of services rendered by employees for his or her employer; business-to-business transactions including agriculture; purchases for investment; purchases involving gambling at licensed bingo, racing, or gambling boats; purchases relating to common carriers; purchases of railroad rolling stock; purchases of barges and cargo; tuition and fees for education; purchases of insurance products and services; purchases of used tangible personal property; purchases by charities; and any purchase of tangible goods or service exempted by a majority vote of two-thirds of each house of the General Assembly and approved by the Governor will be exempt from the new sales tax. Beginning January 1, 2015, exemptions not specifically listed in this resolution will be eliminated. The General Assembly must enact a law with an effective date of no later than January 1, 2017, to continue the Senior Citizens Property Tax Credit after the individual income tax is eliminated. The local sales taxes and the conservation sales tax and the parks and soils sales tax will be recalculated to produce substantially the same amount of revenue based on the average collections over a five-year period. The resolution requires the General Assembly to provide a process for the approval or appeal of the Department of Revenue's calculation of the adjusted sales tax rate. The new sales tax rate plus the conservation sales tax rate, the parks and soils sales tax rate, and local tax rates, excluding transportation district taxes and community improvement district taxes, cannot exceed 10% unless the increase is imposed by voters or the temporary result of the recalculation of local taxes. The resolution creates a property tax relief credit equal to 50% of the increase in taxes on a homestead to be used on the taxpayer's current property tax bill if the prior year's tax liability on the residence increased in value more than 5%

FISCAL DESCRIPTION (continued)

in a year of general reassessment or 2.5% in a year without a reassessment. To qualify for the credit, a taxpayer must be at least 65 years of age; have total household income of no more than $75,000, adjusted annually based on the change in the federal Consumer Price Index from the previous year; and own a residence of no more than $400,000 appraised value, adjusted annually based on the change in the federal Consumer Price Index from the previous year.

Any taxpayer who claims this credit cannot claim the Senior Citizen Property Tax Credit or any similar credit.

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

SOURCES OF INFORMATION

Department of Elementary and Secondary Education
Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration
Missouri Lottery Commission
Missouri Gaming Commission
Department of Agriculture
University of Missouri - Economic & Policy Analysis Research Center

Ross Strope

Acting Director
March 5, 2013

KC:LR:OD