

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5000-03
Bill No.: HCS for SB 662
Subject: Business and Commerce; Revenue Department; Taxation and Revenue - Sales and Use
Type: Original
Date: April 16, 2014

Bill Summary: This proposal would require the Department of Revenue to notify affected sellers of certain decisions modifying sales tax law.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to a previous version of this proposal, 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.

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

Officials from the **Department of Revenue (DOR)** assumed a previous version of this proposal would require DOR to notify all affected businesses of a decision by the the Department of Revenue, the Administrative Hearing Commission, or a court of competent jurisdiction if that decision would change the sales tax due on tangible personal property or taxable services due pursuant to sections 144.010 to 144.510, RSMo.

Fiscal impact

DOR officials assumed the proposal would increase costs to the Department by approximately \$500,000 per year.

Administrative impact

DOR officials noted the proposal would require the Department to provide a notice to all affected businesses if a decision by the Department of Revenue, the Administrative Hearing Commission, or a court of competent jurisdiction would change the sales tax due on tangible personal property or taxable services pursuant to sections 144.010 to 144.510.

ASSUMPTION (continued)

DOR officials assumed Collections and Tax Assistance (CATA) would have additional customer contacts with questions on letters received from the Department. CATA would require two additional Revenue Processing Technicians I (Range 10, Step L) for additional contacts to the registration section and tax assistance offices. Each technician would require CARES equipment and license.

DOR officials stated there are approximately 140,000 businesses registered for sales and use tax reporting in Missouri. The Department does not maintain an inventory of items sold by each business. To achieve the notification requirement of this legislation, the Department assumes it would be required to notify each business registered with the Department any time the state sales tax due changes. This may be required up to five times per year, depending on the types of cases heard by the courts.

DOR officials stated they were unsure how the Department would notify businesses that are not registered for sales tax or use tax, but sell taxable tangible personal property or services.

Oversight assumes DOR would not be required to directly contact unregistered businesses regarding sales or use tax decisions; the Department could notify unregistered merchants of sales tax program changes through notifications for other DOR programs, in publications, and on the DOR website.

DOR officials calculated an estimate of the cost to send five notices per year to the 140,000 businesses registered with the department.

* $140,000 \times 5 = 700,000$ mailing per year, and $700,000$ mailings \times $\$0.555 =$
 $\$388,500$.

DOR officials assumed the sales tax area would not need additional staff to issue the notifications, but up to 40 hours of overtime may be required. The Department would need ITSD programming to create the notifications. This process could result in additional contacts from taxpayers.

The DOR estimate of cost to implement this proposal included two additional employees as well as overtime for certain existing employees. With benefits, equipment, and expense, the DOR estimate totaled \$81,562 for FY 2015, \$83,483 for FY 2016, and \$84,351 for FY 2017.

ASSUMPTION (continued)

Oversight does not have information as to the number of decisions by the Department of Revenue, the Administrative Hearing Commission, or the courts regarding sales tax issues, but assumes the mandatory notification requirement would result in significant additional cost to DOR. Oversight also assumes existing communications with sellers of goods and taxable services would reduce the cost of notifying those merchants. Accordingly, Oversight will indicate a cost in excess of \$100,000 per year to include full-time and temporary employees, benefits, and expense and equipment for DOR to implement this proposal.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$2,184 based on 80 hours of programming to make changes to DOR system.

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.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
Merchant notification system Section 144.021	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would require the Department of Revenue to notify affected sellers of certain decisions modifying sales tax law.

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
Joint Committee on Administrative Rules
Department of Revenue



Mickey Wilson, CPA
Director
April 16, 2014

Ross Strobe
Assistant Director
April 16, 2014