

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5931-01
Bill No.: HB 1924
Subject: Taxation and Revenue - Sales and Use; Business and Commerce
Type: Original
Date: April 7, 2014

Bill Summary: This proposal would authorize a sales tax holiday week for products that are made in the USA.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue*	\$0	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	\$0	(More than \$100,000)	(More than \$100,000)

* The Office of Administration - Division of Budget and Planning estimated an annual loss of \$4.2 million in general sales taxes from the sales tax holiday.

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Conservation Commission	\$0	(More than \$100,000)	(More than \$100,000)
Parks, and Soil and Water	\$0	(More than \$100,000)	(More than \$100,000)
School District Trust	\$0	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(More than \$100,000)	(More than \$100,000)

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

Section 144.059, RSMo - Made in USA sales tax holiday:

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **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, according to Federal Trade Commission guidelines, there are several categories of "Made in USA" products, including products that are entirely manufactured in the USA to those partially manufactured in the USA and stated they could not determine if only those products that are "all or virtually all made in the U.S." would qualify for the sales tax holiday, or if a broader set of products would also qualify.

ASSUMPTION (continued)

BAP officials cited a study prepared by the San Francisco Federal Reserve which provides estimates of the proportion of personal consumption comprised by various product types, as well as what portion qualifies for the "Made in USA" exemption. Based on that information, BAP officials estimated that 11.4% of annual sales would qualify for the holiday. Further, since the proposed holiday would last for one week, BAP officials assumed $(7/365) = 1.9\%$ of annual qualifying sales would be exempt, or $(1.9\% \times 11.4\%) = 0.22\%$ of total annual sales.

BAP officials noted that in FY 2013, \$1,898 million of sales tax was collected in the General Revenue Fund; and this proposal would reduce General Revenue Fund sales tax collections by $(\$1,898 \text{ million} \times 0.22\%) = \4.2 million .

BAP officials noted that if food is included, 18.7% of annual sales would qualify for the holiday. Further, since the holiday lasts for one week, BAP assumes 1.9% of annual qualifying sales would be exempt, or $(18.7\% \times 1.9\%) = 0.36\%$ of annual sales. Based on FY 2012 collections, this would reduce dedicated sales taxes.

Oversight assumes the revenue reductions could be as indicated in the following table. Because local governments would be allowed but not required to adopt the state sales tax holiday, Oversight assumes any revenue reduction would be the result of local action and will not include a local government revenue reduction in this fiscal note.

Fund	Reported FY 2013 Sales Tax Revenues	Percent Exempted	Amount Exempted
General Revenue	\$1,895,024,076	0.22%	\$4,169,053
School District Trust	\$728,820,622	0.36%	\$2,623,754
Conservation Commission	\$91,469,530	0.36%	\$329,290
Parks, and Soil and Water	\$73,173,035	0.36%	\$263,423

ASSUMPTION (continued)

Officials from the **Department of Conservation (MDC)** assume this proposal would authorize a one-week sales tax holiday week for products that are made in the USA.

MDC officials noted Conservation Sales Tax funds are derived from a one-eighth of one percent sales and use tax pursuant to the Missouri Constitution, and assume exempting products "Made in the USA" for a seven day period in July from sales tax would reduce sales tax collected and would reduce Conservation Sales Tax revenues.

MDC officials assume this proposal would have an unknown negative fiscal impact, but greater than \$100,000; and assume the Department of Revenue would be better able to estimate the anticipated fiscal impact from this proposal.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would authorize a state sales and use tax exemption on the first \$15,000 of each purchase of a made in USA product, excluding a purchase of a motor vehicle, purchased during a specified seven-day period each July beginning January 1, 2015, but ending December 31, 2016,

DNR officials noted the Department's Parks and Soils Sales Tax Funds are derived from a one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. DNR officials assume the sales tax holiday week for products made in the USA would reduce the amount of funding available in the Parks and Soils Sales Tax Funds.

Oversight assumes this proposal would reduce sales tax revenues but is not able to determine the extent to which additional retail sales would be exempted by this proposal. Oversight also assumes the sales tax holiday could potentially influence the timing of larger purchases, resulting in revenue reductions larger than the BAP calculations. Oversight will indicate a revenue reduction greater than \$100,000 for the General Revenue Fund and for those other state funds which receive sales tax revenues.

Oversight will not indicate a fiscal impact to road and transportation funds since motor vehicle sales are not eligible for the sales tax exemption.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would create a sales tax holiday beginning January 1, 2015, but ending December 31, 2016, for retail sales of any "Made in USA" product. The holiday would be a seven day period beginning on July first and ending on July seventh, unless July first is a Sunday. If July first is a Sunday, the seven-day period would begin on July second and end on July eighth. The exemption provided in this section would only apply to the first fifteen thousand dollars of each purchase of a "Made in USA" product.

Fiscal impact

DOR officials stated they are unable to determine the amount of "Made in USA" product sales tax that is included in total sales tax amounts reported. Based on \$3.192 billion in state sales and use tax collections for fiscal year 2013, the Department estimates daily sales and use tax collections of \$8.8 million. Providing an exemption for "Made in USA" products for a seven day period could result in an overall reduction of \$61.6 million; however, this estimate may be greatly overstated because this estimate includes products made outside of the USA.

DOR officials stated the Office of Administration - Division of Budget and Planning may be able to provide more precise numbers.

Administrative impact

DOR officials assume Collections and Tax Assistance (CATA) would require two additional Revenue Processing Technicians I for additional file maintenance processed and contacts, and each technician would require CARES equipment and license.

In addition, DOR officials assume Sales Tax would require programming to establish a separate sales tax holiday line on sales tax returns for political subdivisions that do not participate in the holiday.

DOR officials noted the proposed Sales Tax Holiday would impact two filing periods (July Monthly Returns and July-September Quarterly returns). Because businesses must differentiate sales tax collected in political subdivisions that do not participate, the holiday would potentially eliminate a substantial volume of the July - One and Two Location Voucher returns and the Quarterly July-September - One and Two Location Voucher Returns that can be processed without human intervention. DOR officials assume this would result in additional hand keying by Department staff and add to the complexity of filing for the impacted businesses.

ASSUMPTION (continued)

DOR officials assume the department would need to notify approximately 1,500 cities, counties and districts how to participate in the holiday, and assume the department would have the following related costs.

Letters	$\$0.025 \times 1500 =$	\$ 37
Envelopes	$\$0.040 \times 1500 =$	60
Postage	$\$0.490 \times 1500 =$	<u>690</u>
Total	$\$0.555 \times 1500 =$	\$ 832

Further, DOR officials assume the department would need to send approximately 20,000 businesses a holiday notification informing them how to collect and report holiday related sales tax for locals only and how to report the state exemption on their return. DOR officials assume the department would have the following related costs.

Letters	$\$0.025 \times 20,000 =$	\$ 500
Envelopes	$\$0.040 \times 20,000 =$	800
Postage	$\$0.490 \times 20,000 =$	<u>9,200</u>
Total	$\$0.555 \times 20,000 =$	\$11,100

DOR officials assume Sales Tax would require one additional Revenue Processing Technician I (Range 10, Step L) to process refund claims.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$27,518 based on 1,008 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.

The DOR estimate of cost to implement this proposal including three additional employees and related benefits, equipment, and expenses, totaled \$137,347 for FY 2015, \$136,296 for FY 2016, and \$137,891 for FY 2017.

ASSUMPTION (continued)

Oversight notes this proposal would provide two brief sales tax holidays; the first week of July in 2015 (FY 2016) and 2016 (FY 2017). Although the holidays could result in consumers delaying purchases for a limited time before the holiday, Oversight will assume the holidays would only impact taxable sales in FY 2016 and FY 2017. Oversight also assumes DOR would notify local governments and retailers of the sales tax holiday in advance, and in regularly scheduled communications. Accordingly, Oversight assumes any additional cost to DOR from this proposal would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred, or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR *</u>			
Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	<u>\$0</u>	(More than <u>\$100,000)</u>	(More than <u>\$100,000)</u>

*** Office of Administration - Division of Budget and Planning estimated an annual loss of \$4.2 million in general sales taxes from the sales tax holiday.**

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2015 (10 Mo.)	FY 2016	FY 2017
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - DOR</u>			
Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	(More than <u>\$100,000)</u>	(More than <u>\$100,000)</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Revenue reduction - DOR</u>			
Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>\$0</u>	(More than <u>\$100,000)</u>	(More than <u>\$100,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction - DOR</u>			
Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>
ESTIAMTED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</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

The proposed legislation would authorize a state sales and use tax exemption on the first \$15,000 of each purchase of a made in USA product, excluding a purchase of a motor vehicle, purchased during the first week of July 2015 and 2016. A made in USA product would be defined as any new product that supports a claim to be made in the United States under the policy on "Made in USA" claims enforced by the Federal Trade Commission.

Retailers that do not participate in the holiday could offer Department of Revenue sales tax refund forms to consumers to file for a direct refund from the Department, or they could offer on-site sales tax refunds in lieu of participating in the sales tax holiday. Any political subdivision could adopt an ordinance or order to opt into the holiday.

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
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue



Mickey Wilson, CPA
Director
April 7, 2014

Ross Strobe
Assistant Director
April 7, 2014