

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3067-05
BILL NO.: SCS for HB 1443
SUBJECT: Funerals and Funeral Directors; Tax and Revenue; Revenue Department.
TYPE: Original
DATE: April 24, 2000

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| General Revenue | (\$1,902,423) to (\$1,973,423) | (\$2,916,333) to (\$2,987,333) | (\$2,988,473) to (\$3,059,473) |
| School District Trust | (\$720,280) to (\$744,280) | (\$1,056,543) to (\$1,080,543) | (\$1,080,589) to (\$1,104,589) |
| Conservation | (\$90,036) to (\$93,036) | (\$132,068) to (\$135,068) | (\$135,074) to (\$138,074) |
| Parks and Soil | (\$72,028) to (\$74,528) | (\$105,654) to (\$108,154) | (\$108,058) to (\$110,558) |
| Aviation Trust | (\$284,023) | (\$284,023) | (\$284,023) |
| Total Estimated Net Effect on <u>All</u> State Funds | (\$3,068,790) to (\$3,168,790) | (\$4,494,621) to (\$4,594,621) | (\$4,596,217) to (\$4,696,217) |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|-------------------------------------|---|---|---|
| FUND AFFECTED | FY 2001 | FY 2002 | FY 2003 |
| Local Government | (\$1,080,421) to (\$1,116,421) | (\$1,584,815) to (\$1,620,815) | (\$1,620,885) to (\$1,656,885) |

Numbers within parentheses: () indicate costs or losses
 This fiscal note contains 10 pages.

FISCAL ANALYSIS

ASSUMPTION

Sales tax exemption for admission fees for hunting certain birds and the sale of feed and equipment used in the production of certain birds for holders of a class I wildlife breeders permit issued by the Dept. of Conservation.

Officials of the **Department of Conservation, Department of Agriculture** and the **Department of Revenue** stated this part of the proposal would not administratively impact their agencies. This legislation exempts bird hunting fees and certain purchases of feed and equipment for birds from sales and use taxes. Officials of these agencies assume the revenue impact of this proposal is a minimal unknown loss to state and local sales tax funds.

Oversight assumes this proposal would have a negative unknown (under \$100,000 combined) impact to the all of the state sales tax funds. For purposes of the fiscal note, Oversight has broken out the possible effect of this part of the proposal as; unknown - under \$71,000 to the General Revenue Fund, unknown - under \$24,000 to the School District Trust Fund, unknown - under \$3,000 to the Conservation Fund, and unknown - under \$2,500 to the Parks & Soil Fund. All combined, the effect would be unknown - under \$100,000. Oversight also estimated the effect to the Local Political Subdivisions as unknown - under \$36,000.

Tax exemption for sales of coffins, caskets, burial cases and burial vaults of less than \$5,000.

Officials of the **Department of Revenue (DOR)** state the proposal would exempt the sale of coffins, caskets, burial cases and burial vaults under \$5,000 from sales and use taxes.

DOR staff assume 80% of all taxable sales by funeral homes and crematories involve sales of the above items. Taxable sales for businesses in the SIC category "726-Funeral Service and Crematories" in FY 98 were \$108,925,594. If it is assumed that 80% of these sales represent

ASSUMPTION (continued)

these items, the amount of taxable sales that would be exempted in FY 98 would be \$87,140,475. 2.5% inflation is assumed.

Oversight assumes fiscal impact would not occur until October 1, 2000. This is because the law would go into effect August 28, 2000, and a one month lag is assumed. This would result in eight months of fiscal impact in FY 2001. Estimates are based on 1998 sales data.

Tax holiday on the sale of clothing valued under \$100.

Officials of the **Office of Administration (COA)** state they had no data that would indicate what percent of total sales are for items costing under \$100, nor do they have any basis for estimating how effective the program would be in so far as causing sales to take place during the week of the sales tax exemption. They estimated the annual consumer spending in Missouri on clothing and shoes based on U.S. Personal Consumption Expenditures for Clothing and Shoes. COA staff assumes Missouri represents 1.9% of U.S. totals. COA staff estimate taxable sales for FY2001 to be \$6,154,000,000.

Officials of the **Department of Revenue (DOR)** state this legislation creates a sales and use tax holiday/exemption for certain clothing purchased in August. It also allows for local authorities to be reimbursed by the state's General Revenue Fund for any lost revenue realized as a result of this part of the proposal.

ADMINISTRATIVE IMPACT: The Department of Revenue would need to notify all businesses about this law change to insure it is implemented correctly. This mailing to approximately 127,000 accounts would cost \$.33 each, including the notification brochure, or \$41,910. The Division of Taxation would also require programming changes in the MITS system to eliminate sending billings to those who report sales but do not collect sales tax. This would be accomplished with 173 overtime programming hours at approximately \$25.57 per hour or \$4,424. The State Data Center would also charge \$1,126 for implementation and testing.

REVENUE IMPACT: The DOR defers to the fiscal estimate made by the Office of Administration.

Since there is not an emergency clause for this proposal, **Oversight** assumes the effective date would be August 28, 2000, which is after the first Saturday in August. However, in Section 144.049 (2), this part of the proposal would "expire July first next following the effective date of the section" which would be July 1, 2001, before this sales tax holiday could occur. Therefore,

ASSUMPTION (continued)

Oversight assumes the sales tax holiday will not occur and this part of the proposal will have no fiscal impact to the state.

Aviation jet fuel sales tax.

Officials from the **Department of Transportation (DHT)** state this proposal would exempt airlines headquartered in Missouri that purchase less than three million gallons of jet fuel per month from having to pay jet fuel tax above \$150,000. The DHT estimates that Vanguard Airlines is the only airline that should be impacted. Additionally, the jet fuel cap at \$1.5 million is extended until 2005.

The DHT states that their department administers state airport capital improvement and maintenance programs to assist publically-owned public-use airports. The DHT states that funding for these programs comes from a 9 cent per gallon tax on aviation gasoline (approx. \$450,000) and a percentage of the sales tax on jet fuel (approx.\$4,000,000). By far, the majority of funding for these programs comes from jet fuel revenues.

The DHT states that the current jet fuel sales tax exemption is for airlines after they pay \$1,500,000. TWA is currently the only airline that enjoys this exemption. By extending this exemption until 2005, the DHT estimates the state will lose up to an additional \$10 million to \$12 million in revenues in that TWA would have paid if the exemption had expired. The DHT estimated the loss to be \$10 million in both FY 2004 and FY 2005.

Oversight assumes the future loss of revenues from moving the jet fuel sales tax exemption expiration date from December 31, 2003 to December 31, 2005 is beyond the scope of this fiscal note.

Officials from the **Department of Revenue (DOR)** states at present time, the DOR administers a partial sales tax exemption for TWA on their jet fuel. The exemption requires them to pay \$1.5 million per year in sales tax on jet fuel and no more. The DOR assumes with this proposal, the state would lose roughly \$500,000 since smaller airlines might now receive a similar exemption. The DOR assumes there would be no administrative impact to their department.

In response to similar legislation, officials from the **Office of Administration, Budget and Planning (BAP)** state the proposed legislation would have no impact on their agency, and that they concur with the fiscal estimates provided by the Department of Transportation and the Department of Revenue.

ASSUMPTION (continued)

In response to similar legislation, officials from the **Department of Natural Resources (DNR)** states the proposed legislation exempts from state and local sales and use taxes sales of aviation jet fuel to those eligible operations. These provisions may impact the amount of revenue deposited into the DNR's Parks and Soils Sales Tax Funds. The DNR assumes the Department of Revenue will supply the necessary sales and use tax information to estimate the impact from the proposal.

In response to similar legislation from this year, officials from the **Department of Elementary and Secondary Education (DES)** assume there may be a decrease to the amount of moneys deposited into the School District Trust Fund (Proposition C). The DES state that they do not have the information available to make a fiscal impact estimate.

In response to similar legislation from this year, officials from the **City of Jefferson** assume this proposal could reduce the amount of funds they receive from the state's Aviation Trust Fund for Air Traffic Control Tower operation assistance as well as certain capital improvements at the Jefferson City Memorial Airport. The City of Jefferson receives \$125,000 annually for the tower operation assistance and apply for additional monies to fund necessary capital improvements.

In response to similar legislation from this year, officials from the **City of Cape Girardeau** assume they would lose their \$125,000 annual funding source as reimbursement for local costs to fund the operation of the Control Tower. They also assume they would lose additional funding which is awarded from the state's Aviation Trust Fund for capital improvement projects.

Oversight assumes the sales and use tax exemption for aviation jet fuel would result in a decrease of roughly \$400,000 in total state revenues. This \$400,000 would impact the Aviation Trust Fund (instead of the General Revenue Fund), the School District Trust Fund, the Conservation Fund and the Parks and Soils Fund. Oversight assumes that the decrease in revenue into the Aviation Trust Fund would not necessarily result in a decrease in loans and grants to local airports. The proposal would, however, decrease some local sales tax revenues by roughly \$142,000 since jet fuel for common carriers engaged in interstate air transportation which purchase less than three million gallons of fuel per month would now be capped for sales tax on this fuel.

Creation of the Department of Revenue Oversight Board.

Based on similar legislation from this year, officials of the **Office of Administration (COA)** state this establishes the Department of Revenue Oversight Board within the Office of

ASSUMPTION (continued)

Administration. COA staff assumes that all meetings would be held in Jefferson City and that there would be no "reasonable and necessary expenses" for the two members of the Board from the Department of Revenue.

COA staff assume seven traveling members costs would be:

Mileage-estimate 240 miles round trip x 12 meetings x \$0.295 x 7 members = \$5,947
 Lodging-\$75 hotel cost per night x 24 nights (2 nights per meeting) x 7 members = \$12,600
 Meals-\$35 per day x 12 meetings x 2 days per meeting x 9 members = \$7,560. In addition, traveling members would have meal expenses for the evening prior to the meetings-\$22 dinner meal x 12 meetings x 7 members = \$1,848

COA staff also assumes that administrative, copying/printing and communications expenses per member are similar to OA guidelines of \$300 per employee, or \$300 x 9 = \$2,700

In a similar proposal officials of the **Department of Revenue (DOR)** stated this legislation would create a 9 person (7 new individuals) review board for Department of Revenue. Interpretation of this Bill could mean that every decision of the department is subject to hearing, which would require additional attorneys to represent the board, or it could be interpreted to mean that this was simply an oversight board that meets one time per month. This F/N will be prepared on the basis that the board will simply be an oversight board and meet one time per month on premise within Department of Revenue.

This proposal would result in a decrease in Total State Revenues.

| | | | |
|---|----------|---------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2001 | FY 2002 | FY 2003 |
| | (10 Mo.) | | |

GENERAL REVENUE FUND

| | | | |
|---|------------|------------|------------|
| <u>Costs - General Revenue Fund</u> | | | |
| Dept. of Revenue Oversight Board Expenses | (\$25,608) | (\$30,730) | (\$30,730) |

| | | | |
|--|---------------|---------------|---------------|
| <u>Loss - General Revenue Fund</u> | | | |
| Elimination of sales tax on Caskets, Coffins and Burials Cases and Vaults | (\$1,876,815) | (\$2,885,603) | (\$2,957,743) |

| | | | |
|------------------------------------|-----------------|-----------------|-----------------|
| <u>Loss - General Revenue Fund</u> | (unknown - | (unknown - | (unknown - |
| Elimination of sales tax on birds | under \$71,000) | under \$71,000) | under \$71,000) |

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FISCAL IMPACT - State Government FY 2001 FY 2002 FY 2003
 (continued) (10 Mo.)

ESTIMATED NET EFFECT ON **(\$1,902,423) to (\$2,916,333) to (\$2,988,473) to**
GENERAL REVENUE FUND **(\$1,973,423) (\$2,987,333) (\$3,059,473)**

SCHOOL DISTRICT TRUST

Loss - School District Trust Fund
 Elimination of sales tax on Caskets,
 Coffins, Burial Cases and Vaults (\$625,605) (\$961,868) (\$985,914)

Loss - School District Trust Fund (unknown - (unknown - (unknown -
 Elimination of sales tax on birds under \$24,000) under \$24,000) under \$24,000)

Loss - School District Trust Fund
 decrease in sales tax revenue on jet fuel (\$94,675) (\$94,675) (\$94,675)

ESTIMATED NET EFFECT ON **(\$720,280) to (\$1,056,543) to (\$1,080,589) to**
SCHOOL DISTRICT TRUST FUND **(\$744,280) (\$1,080,543) (\$1,104,589)**

CONSERVATION SALES TAX

Loss - Conservation Fund
 Elimination of sales tax on Caskets,
 Coffins, Burial Cases and Vaults (\$78,201) (\$120,233) (\$123,239)

Loss - Conservation Sales Tax Fund (unknown - (unknown - (unknown -
 Elimination of sales tax on birds under \$3,000) under \$3,000) under \$3,000)

Loss - Conservation Sales Tax Fund
 decrease in sales tax revenue on jet fuel (\$11,835) (\$11,835) (\$11,835)

ESTIMATED NET EFFECT ON **(\$90,036) to (\$132,068) to (\$135,074) to**
CONSERVATION SALES TAX FUND **(\$93,036) (\$135,068) (\$138,074)**

PARKS AND SOIL SALES TAX

Loss - Parks and Soil Fund
 Elimination of sales tax on Caskets,

| <u>FISCAL IMPACT - State Government</u> (continued) | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|--|-------------------------------------|---------------------------------------|---------------------------------------|
| Coffins, Burial Cases and Vaults | (\$62,561) | (\$96,187) | (\$98,591) |
| <u>Loss</u> - Parks and Soil Sales Tax Fund Elimination of sales tax on birds | (unknown - under \$2,500) | (unknown - under \$2,500) | (unknown - under \$2,500) |
| <u>Loss</u> - Parks and Soil Sales Tax Fund decrease in sales tax revenue on jet fuel | (\$9,467) | (\$9,467) | (\$9,467) |
| ESTIMATED NET EFFECT ON PARKS AND SOILS FUND | (\$72,028) to (\$74,528) | (\$105,654) to (\$108,154) | (\$108,058) to (\$110,558) |

AVIATION TRUST FUND

| | | | |
|--|--------------------|--------------------|--------------------|
| <u>Loss</u> - Aviation Trust Fund decrease in sales tax revenue on jet fuel | (\$284,023) | (\$284,023) | (\$284,023) |
| ESTIMATED NET EFFECT ON AVIATION TRUST FUND | (\$284,023) | (\$284,023) | (\$284,023) |

| <u>FISCAL IMPACT - Local Government</u> | FY 2001 (10 Mo.) | FY 2002 | FY 2003 |
|---|---|---|---|
| <u>Loss</u> to Cities Elimination of sales tax on Caskets, Coffins, Burial Cases and Vaults | (\$563,045) | (\$865,681) | (\$887,323) |
| <u>Loss</u> to Counties Elimination of sales tax on Caskets, Coffins, Burial Cases and Vaults | (\$375,363) | (\$577,121) | (\$591,549) |
| <u>Loss</u> to Local Governments decrease in sales tax revenue on jet fuel | (\$142,013) | (\$142,013) | (\$142,013) |
| <u>Loss</u> to Local Governments Elimination of sales tax on birds | (unknown - under \$36,000) | (unknown - under \$36,000) | (unknown - under \$36,000) |
| ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS | (\$1,080,421) to (\$1,116,421) | (\$1,584,815) to (\$1,620,815) | (\$1,620,885) to (\$1,656,885) |

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FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent that they purchase equipment and feed used in producing certain kinds of birds, or are in the business of dead human body disposal. Small businesses could purchase these items exempt from sales/use tax.

DESCRIPTION

This proposal exempts from state and local sales and use taxes all admission fees charged for the hunting and taking of certain game birds on licensed shooting areas and all sales of feed and equipment used in the production of certain game birds by licensed wildlife breeders.

This proposal also exempts the sale of coffins, caskets, burial cases and vaults of less than five thousand dollars from sales tax.

This proposal also attempts to exempt clothing purchased beginning at 12:01 a.m. on the first Saturday in August to midnight on the second Sunday in August in one year only, from state and local sales and use taxation. This act applies to all retail sales of clothing having a taxable value of one hundred dollars or less. The local taxing political subdivision shall be held harmless from this proposal and will be reimbursed from their lost revenue by the state.

This proposal also limits the sales tax paid on jet fuel by common carriers engaged in interstate air transportation headquartered in Missouri and operating aircraft carrying twenty or more passengers, but having fuel consumption of less than an average of 3 million gallons of aviation jet fuel per month to a cap of \$150,000.

This proposal also establishes within the Office of Administration a Department of Revenue Oversight Board. Qualifications, terms of office, and board compensation are outlined in the bill. The board must meet at least once per month. Taxpayers and businesses may represent themselves at any board meeting. The board is required to oversee the department's administration, management, conduct, direction, and execution and application of tax law of the state. The department's actions and activity must follow a course acceptable to the board. The board must make decisions that are consistent with statutes and decisions of the courts. All actions of the board must be approved by a simple majority vote. Decisions of the board may be appealed to the Administrative Hearing Commission. Confidential tax information is only available to the board in accordance with state law.

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

RAS:LR:OD:005 (9-94)

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SOURCES OF INFORMATION

Department of Revenue
Department of Conservation
Department of Agriculture
Department of Natural Resources
Department of Transportation
City of Jefferson
City of Cape Girardeau
Office of Administration
Department of Elementary and Secondary Education



Jeanne Jarrett, CPA
Director
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