

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 3646-01
BILL NO.: HB 1448
SUBJECT: Revenue Department; Taxation and Revenue - General; Taxation and Revenue - Sales and Use
TYPE: Original
DATE: January 26, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	\$0	(\$14,517,160)	(\$15,161,910)
School District Trust	\$0	(\$4,823,250)	(\$5,040,000)
Conservation	\$0	(\$602,906)	(\$630,000)
Parks and Soil	\$0	(\$482,325)	(\$504,000)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$20,425,641)	(\$21,335,910)

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	\$0	(\$7,234,875)	(\$7,560,000)

Numbers within parentheses: () indicate costs or losses
This fiscal note contains 5 pages

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration (COA)** stated in a similar proposal that they have no data that would indicate what percent of total sales are for items costing a certain dollar amount, 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 time period 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 estimates taxable sales for FY2002 to be \$6,431,000,000 and taxable sales for FY 2003 to be \$6,720,000,000.

The revenue estimate used is based on 1/12 of the FY2002 and FY 2003 taxable sales resulting in a loss of \$20,378,231 million in FY 2002 and a loss of \$21,294,000 in FY 2003 due to the sales tax holidays. **Oversight** assumes ten percent of the sales during this period would be on clothing and shoes over \$50.00, and adjusted the estimated loss in sales tax revenue accordingly. The ten percent estimate is arbitrary. No adjustment was made for any incentive effect this proposal might have on spending habits.

Officials of the **Department of Revenue (DOR)** state they would incur administrative costs, including a mailing to all involved retailers to notify them about this law change to insure it is implemented correctly. The DOR states 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: clothing sales in just Apparel and Accessory stores, based upon the Standard Industry Code, alone can average \$120,000,000 per month which translates to around \$5.07 million in sales tax, but the DOR is unable to build in the \$50 dollar limit.

Oversight, in a previous proposal had based the fiscal impact on the Standard Industry Code (SIC) code-56; however, Oversight is compelled to rely on the data from other sources because SIC code-56 did not include some retail establishments which sold clothing and other items, such as discount stores and department stores. Oversight, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by the Office of Administration and the actual impact similar legislation had on other states. Oversight assumes the first sales tax holiday month would be August, 2001. Oversight also assumes the mailing costs would be incurred each July before the August sales tax holiday month, but the programming expenses are a one-time occurrence.

ASSUMPTIONS (continued)

For a similar proposal, Oversight contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such "holidays" in 1997, 1998 and 1999. Oversight assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, *the Official Statistics, Statistical Abstract of the United States: 1998* to determine what Missouri's taxable sales in a similar period might be. The comparison reveals that by using the Office of Administration, Budget and Planning's estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. Oversight assumes that the same impact will occur whether the exemption applied to clothing or shoes under \$500 as it would for clothing under \$100. Oversight also assumes that the results could be applied over a three day exemption as it would for a seven day exemption, as it would for a thirty-one day exemption.

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

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
GENERAL REVENUE FUND			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Expense and Equipment	\$0	(\$47,460)	(\$41,910)
<u>Loss to General Revenue Fund</u>			
Clothing sales tax exemption	\$0	(\$14,469,700)	(\$15,120,000)
ESTIMATED NET EFFECT ON			
GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$14,517,160)</u>	<u>(\$15,161,910)</u>
<u>Loss to School District Trust Fund</u>			
Clothing sales tax exemption	\$0	(\$4,823,250)	(\$5,040,000)

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
<u>Loss to Conservation Fund</u>			
Clothing sales tax exemption	\$0	(\$602,906)	(\$630,000)
 <u>Loss to Parks and Soil Funds</u>			
Clothing sales tax exemption	\$0	(\$482,325)	(\$504,000)
 <u>FISCAL IMPACT - Local Government</u>			
<u>Loss to Cities</u>			
Clothing sales tax exemption	\$0	(\$4,340,925)	(\$4,536,000)
 <u>Loss to Counties</u>			
Clothing sales tax exemption	\$0	(\$2,893,950)	(\$3,024,000)
 ESTIMATED NET EFFECT TO LOCAL GOVERNMENT		<u>\$0</u>	<u>(\$7,234,875)</u>

FISCAL IMPACT - Small Business

Small businesses who sell clothing would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these taxable items. Small businesses who would purchase clothing would pay less for such items.

DESCRIPTION

This proposal exempts from state and local sales and use tax the sale of certain clothing when sold during the month of August. Each individual item must sell for \$50 or less to qualify for the exemption.

The exemption will expire on August 31, 2004.

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

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SOURCES OF INFORMATION

Department of Revenue
Office of Administration
State of Texas
State of Florida
State of New York



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