

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 4489-01  
BILL NO.: SB 1016  
SUBJECT: Taxation and Revenue-Sales and Use: Revenue Dept.  
TYPE: Original  
DATE: March 3, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$4,598,460)	\$0	\$0
School District Trust	(\$1,517,000)	\$0	\$0
Conservation	(\$189,625)	\$0	\$0
Parks and Soil	(\$151,700)	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$6,456,785)</b>	<b>\$0</b>	<b>\$0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government</b>	<b>\$0 to (\$2,275,500)</b>	<b>\$0</b>	<b>\$0</b>

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

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**FISCAL ANALYSIS**

ASSUMPTION

Officials of the **Office of Administration (COA)** state they have 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.

The revenue estimate used is based on 9/365 of the FY2001 taxable sales resulting in a loss of \$6,409,325 million due to the sales tax holiday. No adjustment was made for the \$100 cap. No adjustment was made for any incentive effect this proposal might have on spending habits.

Officials of the **Department of Revenue (DOR)** state this legislation creates a sales and use tax holiday/exemption for certain clothing purchased in August, 2000. It also allows for local authorities to vote the holiday out by a majority vote to be taken at a public hearing.

**ADMINISTRATIVE IMPACT:** Based on responses to similar legislation from this session, 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.

The DOR also states that if they must track certain localities that have the ability to opt out of the holiday, additional administrative costs would occur. The Division of Tax forecasts one (1) Tax Processing Tech to track the locals that opt out and perform proper system maintenance.

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

**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 of \$6,409,325 based upon the estimate provided by the Office of

ASSUMPTION (continued)

Administration and the actual impact similar legislation had on other states. Local taxing authorities have the option of also exempting the sales tax concurrently with the state, therefore, Oversight ranged the loss in revenue to local governments from no such governments adopting the ordinance (\$0 effect) to all local governments adopting the measure. Oversight also assumed the DOR would not require the additional FTE that was requested to keep track of the local jurisdictions that opt out of the sales tax holiday.

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 “holiday” in the State of Florida is the most comparable to the proposed legislation and the comparison with that state reveals that Missouri could expect to incur a loss in sales tax revenue of roughly \$6.87 million. Comparisons with the State of Texas and the State of New York reveal that Missouri could expect a loss in sales tax revenue in a range between \$4.64 million and \$6.4 million, but the time frames for these states were three days and seven days respectively, not nine days like Florida and the proposed legislation. Therefore, the State of Florida provides a better comparison. 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. The estimate from the Office of Administration is reasonable compared to the applied results of the State of Florida, further reinforcing our estimate.

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

<u>FISCAL IMPACT - State Government</u>	FY 2001	FY 2002	FY 2003
<b>GENERAL REVENUE FUND</b>			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Expense and Equipment	(\$47,460)	\$0	\$0
<u>Loss to General Revenue Fund</u>			
Clothing sales tax exemption	(\$4,551,000)	\$0	\$0

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

**ESTIMATED NET EFFECT ON  
 GENERAL REVENUE FUND**                      **(\$4,598,460)**                      **\$0**                      **\$0**

Loss to School District Trust Fund  
 Clothing sales tax exemption                      (\$1,517,000)                      \$0                      \$0

Loss to Conservation Fund  
 Clothing sales tax exemption                      (\$189,625)                      \$0                      \$0

Loss to Parks and Soil Funds  
 Clothing sales tax exemption                      (\$151,700)                      \$0                      \$0

FISCAL IMPACT - Local Government                      FY 2001              FY 2002              FY 2003

Loss to Cities  
 Clothing sales tax exemption                      \$0 to  
 (\$1,365,300)                      \$0                      \$0

Loss to Counties  
 Clothing sales tax exemption                      \$0 to  
(\$910,200)                      \$0                      \$0

**ESTIMATED NET EFFECT TO  
 LOCAL GOVERNMENT FUND**                      **\$0 to**  
**(\$2,275,500)**                      **\$0**                      **\$0**

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.

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DESCRIPTION

This proposal exempts clothing purchased beginning at 12:01 a.m. on August 12, 2000, through midnight on August 20, 2000, 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.

This proposal contains an emergency clause.

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

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



Jeanne Jarrett, CPA  
Director  
March 3, 2000