

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0795-01  
Bill No.: HB 172  
Subject: Revenue Dept.; Taxation and Revenue - General, Sales and Use  
Type: Original  
Date: February 6, 2001

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	\$0	(\$10,073,060)	(\$10,474,226)
School District Trust	\$0	(\$3,343,050)	(\$3,476,772)
Conservation	\$0	(\$417,881)	(\$434,597)
Parks and Soil	\$0	(\$334,305)	(\$347,677)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$0</b>	<b>(\$14,168,296)</b>	<b>(\$14,733,272)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
<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 2002	FY 2003	FY 2004
<b>Local Government</b>	<b>\$0</b>	<b>(\$5,014,575)</b>	<b>(\$5,215,158)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 4 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow for a sales tax “holiday” on the purchase of clothing and shoes.

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.9% of U.S. totals. BAP staff estimates taxable sales for FY2002 to be \$6,427,700,000, taxable sales for FY 2003 to be \$6,686,100,000 and taxable sales for FY 2004 to be \$6,953,544,000.

BAP states, as was the case with similar proposals from last year, there is no information available that addresses what percent of these expenditures would qualify for the exemption or how effective this program would be in so far as motivating the public to shop for clothing during the tax “holiday”.

**Oversight** based the revenue estimate on 1/12 of the FY 2003 and FY 2004 taxable sales resulting in a total loss in state and local funds of \$19.1 million in FY 2003 and \$19.9 million in FY 2003 due to the sales tax holidays. Oversight assumes forty percent of the sales during this period would be on clothing and shoes over \$20.00, and adjusted the estimated loss in sales tax revenue accordingly. The forty 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 this legislation creates both a state and local sales and use tax holiday for all retail sales of clothing with a taxable value of twenty dollars or less for the month of August.

#### ADMINISTRATIVE IMPACT:

DOR will have to notify all sales tax accounts of the holiday period. 127,000 notification letters will have to be sent to the registered accounts at a cost of \$43,910.

**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, Budget and Planning and the actual impact similar legislation had on other states. Oversight assumes the first sales tax holiday month would be August, 2002. Oversight also assumes the mailing costs would be incurred each July before the August sales tax holiday month.

For a similar prior 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

ASSUMPTIONS (continued)

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 2002	FY 2003	FY 2004
	(10 Mo.)		
<b>GENERAL REVENUE FUND</b>			
<u>Cost to General Revenue Fund</u>			
<u>Department of Revenue (DOR)</u>			
Expense and Equipment	\$0	(\$43,910)	(\$43,910)
<u>Loss to General Revenue Fund</u>			
Clothing sales tax exemption	<u>\$0</u>	<u>(\$10,029,150)</u>	<u>(\$10,430,316)</u>
<b>ESTIMATED NET EFFECT ON</b>			
<b>GENERAL REVENUE FUND</b>	<b><u>\$0</u></b>	<b><u>(\$10,073,060)</u></b>	<b><u>(\$10,474,226)</u></b>
<u>Loss to School District Trust Fund</u>			
Clothing sales tax exemption	\$0	(\$3,343,050)	(\$3,476,772)
<u>Loss to Conservation Fund</u>			
Clothing sales tax exemption	\$0	(\$417,881)	(\$434,597)
<u>Loss to Parks and Soil Funds</u>			
Clothing sales tax exemption	<u>\$0</u>	<u>(\$334,305)</u>	<u>(\$347,677)</u>
<b>ESTIMATED NET EFFECT TO</b>			
<b>ALL STATE FUNDS</b>	<b><u>\$0</u></b>	<b><u>(\$14,168,296)</u></b>	<b><u>(\$14,733,272)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Loss to Cities</u>			
Clothing sales tax exemption	\$0	(\$3,008,745)	(\$3,129,095)
<u>Loss to Counties</u>			
Clothing sales tax exemption	<u>\$0</u>	<u>(\$2,005,830)</u>	<u>(\$2,086,063)</u>
<b>ESTIMATED NET EFFECT TO LOCAL GOVERNMENT</b>	<b><u>\$0</u></b>	<b><u>(\$5,014,575)</u></b>	<b><u>(\$5,215,158)</u></b>

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.

Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt.

DESCRIPTION

This bill 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 \$20 or less to qualify for the exemption. The exemption will expire on August 31, 2005.

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  
    Division of Budget and Planning  
State of Texas  
State of Florida  
State of New York



Jeanne Jarrett, CPA  
Director  
February 6, 2001