

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6064-01
Bill No.: HB 1983
Subject: Taxation and Revenue - Sales and Use; Revenue Dept.; Political Subdivisions
Type: Original
Date: April 11, 2012

Bill Summary: This legislation would propose a "Made in USA" sales tax holiday for all retail sales except motor vehicles for a seven-day period in July 2013 and July 2014.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
General Revenue	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Conservation Commission	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Parks, and Soil and Water	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
School District Trust	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2013	FY 2014	FY 2015
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 2013	FY 2014	FY 2015
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** and the **Joint Committee on Administrative Rules** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume the proposed legislation 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 to those partially manufactured in the USA. It is unclear from this proposal if only those products that are "all or virtually all made in the USA" 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 provided estimates of the proportion of personal consumption comprised by various product types, as well as what portion would qualify for the "Made in USA" exemption. As shown in Table 1 below, 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 assume $(1 \text{ week}/52 \text{ weeks}) = 1.9\%$ of annual qualifying sales would be exempt, or $(11.4\% \times 1.9\%) = 0.22\%$ of annual sales. In FY 2011, \$1,810 million in general sales tax was collected. This proposal would reduce those revenues by $(\$1,810 \text{ million} \times .0022) = \3.9 million .

If food is included, BAP officials estimated that 18.7% of annual sales would qualify for the holiday. Further, since the proposed holiday would last for one week, BAP officials assume 1.9% of annual qualifying sales would be exempt, or 0.36% of annual sales. Based on FY 2011 collections, the proposed holiday would reduce dedicated sales taxes as shown in Table 2.

Local sales taxes would also be reduced should the municipality choose to participate.

Table 1 Exempt Sales

Category	Expenditure Percent	Made in USA Percent	Exempt percent
Furniture and Household Equipment	4.7%	59.6%	2.8%
Other Durables	1.8%	69.0%	1.2%
Clothing	3.4%	24.9%	0.8%
Other Nondurables	8.4%	77.7%	6.5%
Total Excluding Food			11.4%
Food	8.0%	90.8%	7.3%
Total Including Food			18.7%
Motor Vehicles	3.4%	74.9%	2.5%

ASSUMPTION (continued)

Table 2 Revenue Reduction

General Revenue Fund	\$3.9
Conservation Commission Fund	\$0.3
Parks, and Soil and Water Fund	\$0.2
School District Trust Fund	\$2.4

Officials from the **Department of Revenue** (DOR) assume this proposal would exempt from sales tax any item eligible under the United States Federal Trade Commission rules as eligible for the “Made in USA” designation during a period beginning July 1 and ending July 7. The holiday would be provided in 2013 and 2014. Any political subdivision could choose to allow the sales tax holiday to apply to its local sales taxes.

DOR officials assume that Collections and Tax Assistance (CATA) would require one additional FTE Revenue Processing Technician I (Range 10, Step L) for each 7,500 additional file maintenance items processed, and one additional FTE Revenue Processing Technician I (Range 10, Step L) for each 24,000 additional phone calls received, and those employees would require CARES equipment and license.

In addition, DOR officials assume that Sales Tax would require programming to establish an item tax reported on a separate sales tax holiday line on taxpayers’ returns for political subdivisions that do not participate in the holiday. The department would need to notify approximately 1,500 cities, counties and districts how to participate in the holiday, which would add mailing and printing costs as follows.

Letters	.025 x 1500 =	\$ 37.50
Envelopes	.040 x 1500 =	60.00
Postage	.450 x 1500 =	<u>675.00</u>
Total		<u>\$ 772.50</u>

Each year, the department would 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 exemption on their return.

ASSUMPTION (continued)

Letters	\$0.025 x 20,000 =	\$ 500.00
Envelopes	\$0.040 x 20,000 =	800.00
Postage	\$0.450 x 20,000 =	<u>\$ 9,000.00</u>
Total		<u>\$10,300.00</u>

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

DOR officials provided a cost estimate to implement this proposal which included two additional employees and the related benefits, equipment, and expense totaling \$91,154 for FY 2013, \$92,483 for FY 2014, and \$93,618 for FY 2015.

Oversight notes that this proposal would provide two brief sales tax holidays; one in 2013 and one in 2014. 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 2013 and FY 2014. Oversight also assumes that DOR would notify local governments and retailers of the sales tax holiday in advance, and in regularly scheduled communications. Accordingly, Oversight assumes that any additional cost to DOR related to 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.

IT impact

DOR officials provided an estimate of the IT impact to implement this proposal of \$26,712 based on 1,008 hours of programming to make changes to DOR systems.

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

ASSUMPTION (continued)

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. Accordingly, Oversight will indicate a revenue reduction greater than \$100,000 for the state General Revenue Fund and for those other state funds which receive sales tax revenues.

Officials from the **City of Columbia** assume that since this proposal would appear to be voluntary for cities at this time, it would have no fiscal impact on their organization.

Officials from the **City of Kansas City** assume that because the City would be given the choice to opt in to the sales tax holiday, no impact would be expected from the proposal.

Officials from **St. Louis County** assume that their organization could lose up to \$500,000 per year on a one week sales tax holiday for “Made in the USA” products, based on the assumption that 90% of sales are non-vehicle and 75% of sales are for “Made in the USA” products.

Oversight will not indicate a fiscal impact to local governments since any impact to local government revenues would result from the local government decision to adopt the sales tax holiday.

<u>FISCAL IMPACT - State Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
GENERAL REVENUE FUND			
<u>Revenue reduction - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>

**CONSERVATION COMMISSION
 FUND**

<u>Revenue reduction - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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**PARKS, AND SOIL AND WATER
 FUNDS**

<u>Revenue reduction - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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SCHOOL DISTRICT TRUST FUND

<u>Revenue reduction - sales tax exemptions</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2013 (10 Mo.)	FY 2014	FY 2015
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to a small business which would purchase a qualifying product during the sales tax holiday.

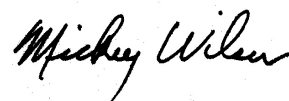
FISCAL DESCRIPTION

This legislation would propose a “Made in USA” sales tax holiday for all retail sales except motor vehicles for a seven-day period in July 2013 and July 2014.

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 Revenue
City of Columbia
City of Kansas City
St. Louis County



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Director
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