

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1599-01
Bill No.: HB 759
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 3, 2015

Bill Summary: This proposal would change current provisions regarding sales tax refund claims.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(Up to \$2,957,000)	(Up to \$3,549,000)	(Up to \$3,549,000)
Total Estimated Net Effect on General Revenue Fund	(Up to \$2,957,000)	(Up to \$3,549,000)	(Up to \$3,549,000)

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
School District Trust	(\$985,800)	(\$1,183,000)	(\$1,183,000)
Conservation Commission	(\$123,200)	(\$147,900)	(\$147,900)
Parks, and Soil and Water	(\$98,600)	(\$118,300)	(\$118,300)
Road	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$1,307,600)	(Could exceed \$1,549,200)	(Could exceed \$1,549,200)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	(\$3,825,000)	(\$4,590,000)	(\$4,590,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would have statewide impact, and would impact the calculation required under Article X, Section 18(e) of the Missouri Constitution.

BAP officials noted this proposal would modify provisions related to sales tax refund claims made by the purchasers of certain taxable property. Based on information provided by the Department of Revenue (DOR), BAP officials estimated these provisions may have impacted less than \$5 million in sales tax refund claims per year over the last several years; however, it is possible more refund claims may be received if this proposal is adopted. BAP officials deferred to DOR for an estimate of the fiscal impact of this proposal.

Officials from the **Department of Revenue (DOR)** assume this proposal would modify current provisions pertaining to offsets or claims when the assessment is no longer subject to appeal. DOR officials stated the proposal would allow a refund if the purchaser files a refund claim, provided the refund claim is for use tax remitted by the purchaser, or if a person legally obligated to remit the tax files another refund claim.

Administrative impact

DOR officials did not provide an estimate of administrative cost to implement the proposal, and **Oversight** assumes any administrative cost related to this proposal would be minimal and could be implemented with existing resources.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$14,985 based on 200 hours of programming to make changes to DOR systems.

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

ASSUMPTION (continued)

Oversight assumes the DOR estimate of potential revenue reduction for this proposal is the best available and notes that impact would be distributed across those funds which receive sales and use tax revenues. The actual distribution of \$5 million in state sales tax revenues would depend on the type of property purchased and the type of taxable services involved.

Oversight will assume for fiscal note purposes the \$5 million in state sales tax would be based on the current state sales tax rate of 4.225%; therefore the estimated taxable base for this proposal would be $(\$5,000,000 / .04225) = \$118,343,196$. For convenience, Oversight will round the taxable sales estimate to \$118,300,000 and calculate the estimated sales tax due in the table below. The calculations are rounded for convenience.

		Revenue Reduction	
Fund or entity	Sales Tax Rate	Ten months	Full year
General Revenue	3.000%	\$2,957,500	\$3,549,000
Conservation Commission	0.125%	\$123,200	\$147,900
Parks, and Soil and Water	0.100%	\$98,600	\$118,300
School District Trust	1.000%	\$985,800	\$1,183,000
Total state	4.225%	\$4,165,100	\$4,998,200
Local governments *	3.880%	\$3,825,000	\$4,590,000
* The 3.88% local sales tax rate is an average calculated by Oversight based on collections reported by the Department of Revenue.			

ASSUMPTION (continued)

- * The 3% General Sales tax of \$3.549 million would be deposited into the General Revenue Fund, or into Road Funds if the sales or use tax was imposed on a motor vehicle. The amounts due to the Road Funds are further distributed according to a formula in the Missouri Constitution.
- * The 1% Education Sales Tax of \$1.183 million would be deposited into the School District Trust Fund, to be distributed to school districts along with other money in the fund.
- * The 1/8% Conservation Sales Tax of \$147,900 would be deposited into the Conservation Commission Fund.
- * The 1/10% Parks, and Soil and Water Sales Tax of \$118,300 would be deposited into funds managed by the Department of Natural Resources.
- * In addition to the state sales tax collections which could be refunded if this proposal is enacted, there would be \$4.59 million in local sales taxes refunded.
- * The reduction in sales tax collections for local governments and for road funds would also result in reduced collection charges for the Department of Revenue.

Oversight will include the calculated revenue reduction for sales and use taxes in this fiscal note. Oversight assumes most of the general sales tax refunds would be made from the General Revenue Fund and will indicate an amount up to the calculated amount in this fiscal note. Oversight assumes that refunds from road funds could exceed \$100,000 and will indicate that impact in this fiscal note. Oversight will include the calculated amounts of refunds for other state funds which receive sales tax revenues, and for local governments. For simplicity, Oversight will not include an impact in the General Revenue Fund for the reduction in collection charges, the transfers from the School district Trust Fund, or the distributions from road funds.

ASSUMPTION (continued)

Although they did not respond to our request for information, officials from the **Office of the Secretary of State (SOS)** stated in response to a similar proposal in the previous session (HB 2218 LR 6477-01) that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Revenue reduction</u> - Sales tax exemption Section 144.190	(Up to <u>\$2,957.000</u>)	(Up to <u>\$3,549.000</u>)	(Up to <u>\$3,549.000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(Up to \$2,957.000)</u>	<u>(Up to \$3,549.000)</u>	<u>(Up to \$3,549.000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction</u> - Sales tax exemption Section 144.190	<u>(\$985,800)</u>	<u>(\$1,183,000)</u>	<u>(\$1,183,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$985,800)</u>	<u>(\$1,183,000)</u>	<u>(\$1,183,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - Sales tax exemption Section 144.190	<u>(\$123,200)</u>	<u>(\$147,900)</u>	<u>(\$147,900)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$123,200)</u>	<u>(\$147,900)</u>	<u>(\$147,900)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017	FY 2018
(Continued)	(10 Mo.)		

ROAD FUNDS

<u>Revenue reduction</u> - Sales tax exemption Section 144.190	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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ESTIMATED NET EFFECT ON ROAD FUNDS	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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**PARKS, AND SOIL AND WATER
FUNDS**

<u>Revenue reduction</u> - Sales tax exemption Section 144.190	<u>(\$98,600)</u>	<u>(\$118,300)</u>	<u>(\$118,300)</u>
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ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(\$98,600)</u>	<u>(\$118,300)</u>	<u>(\$118,300)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2016	FY 2017	FY 2018
	(10 Mo.)		

LOCAL GOVERNMENTS

<u>Revenue reduction</u> - Sales tax exemption Section 144.190	<u>(\$3,825,000)</u>	<u>(\$4,590,000)</u>	<u>(\$4,590,000)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(\$3,825,000)</u>	<u>(\$4,590,000)</u>	<u>(\$4,590,000)</u>
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FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact on a small business with a sales tax refund claim.

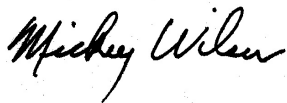
FISCAL DESCRIPTION

This proposal would clarify that current limitations on sales tax refund claims are applicable to the final assessment of sales and use tax which are no longer subject to appeal.

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



Mickey Wilson, CPA
Director
March 3, 2015

Ross Strobe
Assistant Director
March 3, 2015