

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1892-01  
Bill No.: HB 914  
Subject: Food; Political Subdivisions; Taxation and Revenue - Sales and Use; Museums  
Type: Original  
Date: March 6, 2017

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Bill Summary: This proposal would authorize a gross receipts tax on restaurant food sales in the City of Independence.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	\$0 or Up to \$37,075	\$0 or Up to \$148,300	\$0 or Up to \$148,300
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or Up to \$37,075</b>	<b>\$0 or Up to \$148,000</b>	<b>\$0 or Up to \$148,000</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
<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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
<b>Local Government</b>	<b>\$0 or Up to \$1,198,759</b>	<b>\$0 or Up to \$4,795,034</b>	<b>\$0 or Up to \$4,795,034</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** stated that according to the City of Independence's most recent revenue report, they are not currently charging this tax. In FY 2016, the City of Independence had \$252,210,934 worth of taxable revenues from "eating and drinking places" (SIC code 581). Assuming the city charges the maximum tax allowable (2%), Independence could see net collections of  $(\$252,210,934 \times .02) = \$4,795,034$  per fiscal year from the proposed tax.

B&P officials noted this proposal would permit merchants to retain 2% of their tax collections, which could come to a total of  $(\$4,795,034 \times .02) = \$100,884$ . B&P officials also noted this legislation would give Independence the choice of collecting the tax on their own, or contracting with the Department of Revenue (DOR) to collect the tax. If DOR collects the tax, the proposal would permit them to retain 1- 3% of the amount collected. Typically, DOR is only permitted to charge 1% for collection costs. Assuming the full 3% would be retained, DOR would retain \$148,300.

This proposed tax would be voter-approved; therefore, it would not impact Total State Revenue. If the city chooses to contract with DOR to collect this tax the DOR's collection charges would impact TSR. If the city chooses to collect the tax, there would be no impact on TSR. Finally, B&P officials stated the proposal would not impact the revenue limit calculation under Article X, Section 18(e).

**Oversight** notes that the current definition of a city that qualifies under Section 82.850 is any home rule city with more than one hundred thirteen thousand two hundred (113,200) but less than one hundred thirteen thousand three hundred (113,300) inhabitants. Therefore, with a 2010 census population of 116,916, the City of Independence no longer qualifies for this museum and tourism-related tax. This proposal changes the population range to 116,000 to 135,000. Therefore, the City of Independence will once-again qualify to submit this proposed tax to its voters.

ASSUMPTION (continued)

**Oversight** assumes the B&P calculations could be summarized as follows.

Taxable sales	\$252,210,934
Maximum tax rate	2.00%
Estimated gross revenue	\$5,044,219
Merchant retention rate	2.00%
Merchant retention	\$100,884
Subtotal	\$4,943,334
DOR retention rate	3.00%
DOR retention	\$148,300
Net to City	\$4,795,034

**Oversight** will use the B&P estimate of revenue but notes the revenues to the City would depend on voter approval, and the revenues to the state would depend on voter approval for the sales tax and the city's decision to contract with DOR. All amounts will be shown as \$0 or Up to the amount calculated. Oversight notes the proposal could become effective the first day of the second quarter after notification is sent to the Department of Revenue. Oversight will assume the proposal would become effective beginning with the last quarter in FY 2018. Revenues for the City would be \$0 or Up to  $(\$4,795,034 \times .25) = \$1,198,759$  and revenues for the state would be \$0 or Up to  $(\$148,300 \times .25) = \$37,075$ .

The City could also seek voter approval for a tax rate less than the maximum.

**Oversight** has no information as to when the City would hold an election for this proposed tax or the cost of such an election and will include \$0 or an unknown cost for a local election in FY 2018 to approve the proposed tax.

Officials from the **City of Independence** stated the proposal could lead to additional revenue from \$304,172 with a 1/8 cent levy to \$4,868,348 with a two cent levy.

ASSUMPTION (continued)

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

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
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**GENERAL REVENUE FUND**

<u>Additional revenue</u> - DOR Collection charges	\$0 or Up to <u>\$37,075</u>	\$0 or Up to <u>\$148,300</u>	\$0 or Up to <u>\$148,300</u>
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>\$0 or Up to <u>\$37,075</u></b>	<b>\$0 or Up to <u>\$148,300</u></b>	<b>\$0 or Up to <u>\$148,300</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
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**LOCAL GOVERNMENT**

<u>Additional revenue</u> - Independence Restaurant tax	\$0 or Up to \$1,198,759	\$0 or Up to \$4,795,034	\$0 or Up to \$4,795,034
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<u>Cost</u> - Independence Election	\$0 or <u>(Unknown)</u>	<u>\$0</u>	<u>\$0</u>
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<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENT</b>	<b>\$0 or Up to <u>\$1,198,759</u></b>	<b>\$0 or Up to <u>\$4,795,034</u></b>	<b>\$0 or Up to <u>\$4,795,034</u></b>
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FISCAL IMPACT - Small Business

This proposal would require small businesses in the restaurant business to collect and remit the gross receipts tax.

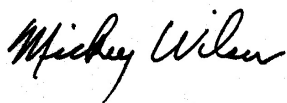
### FISCAL DESCRIPTION

The proposed legislation would update the description of certain cities authorized to impose, upon voter approval, a tax on the gross receipts derived from certain food and beverage sales. Currently, the updated description would only apply to the City of Independence.

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 Independence



Mickey Wilson, CPA  
Director  
March 6, 2017

Ross Strobe  
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March 6, 2017