

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4730-01
Bill No.: HB 1948
Subject: Taxation and Revenue - General, Taxation and Revenue Sales and Use,
 Department of Revenue
Type: Original
Date: February 10, 2020

Bill Summary: This proposal modifies provision relating to state sales tax rate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
General Revenue*	\$0	(\$74,571,653)	(\$149,143,305)	(\$372,858,263)
Total Estimated Net Effect on General Revenue	\$0	(\$74,571,653)	(\$149,143,305)	(\$372,858,263)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
State Road Bond Fund (0319)*	\$0	(\$6,247,391)	(\$12,494,782)	(\$31,236,954)
State Road Fund (0320)*	\$0	(\$4,560,595)	(\$9,121,191)	(\$22,802,977)
State Transportation Fund (0675)*	\$0	(\$124,948)	(\$249,896)	(\$624,739)
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	(\$10,932,934)	(\$21,865,869)	(\$54,664,670)

* Fiscal Impact assumes triggers are met each year.

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
Total Estimated Net Effect on FTE	0	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 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
Local Government*	\$0	(\$1,561,848)	(\$3,123,695)	(\$7,809,239)

* Fiscal Impact assumes triggers are met each year.

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of Administration Budget and Planning (B&P)** and **Department of Revenue (DOR)** both worked together on the fiscal impact for this proposal. DOR and B&P state the changes in Subsection 144.020.1 only change where the reference to the 4% sales tax rate is located within the section. These changes will not impact TSR or the calculation under Article X, Section 18(e).

Subsection 144.020.3 would reduce the sales tax rate by 0.1%, beginning July 1, 2021, each year that the total amount of net revenues collected increased by at least \$75M in each of the three previous fiscal years. No more than five reductions shall occur.

B&P assumes that net revenues must grow by at least \$75M each fiscal year. B&P further assumes that even if growth over the three fiscal years exceeds \$225M (\$75M x 3), the trigger will not be met if one or more years had growth lower than \$75M. Thus if FY1 had growth of \$150M, FY2 had growth of \$75M, but FY3 had growth of \$50M the growth requirement under this proposal would not be met; even though total growth over the three fiscal year was in excess of \$225M (\$75M x 3).

B&P notes that the term "net revenue" is not defined. It is unclear if this refers to general revenue or all state revenues including federal and other funds. B&P assumes that this term refers to all state revenues, including federal and other funds, since the term is not defined or limited.

B&P notes that this would take effect on July 1, 2021 for FY22. However, the calculations for revenue collections and growth are not completed until after July 1st. B&P is unclear if the tax rate reduction would occur mid-fiscal year once the calculations were complete or if the rate reduction would occur the following fiscal year (i.e. July 1, 2022 if FY19, FY20, and FY21 collections met the growth trigger). For the purpose of this fiscal note, B&P will assume that the reduction will occur mid-fiscal year once growth for the last fiscal year has been determined.

B&P notes that the reduction in the sales tax rate could only occur on the 3% levy which is deposited into general revenue and various motor funds (from the 3% sales tax on vehicles). B&P further notes that the 1% tax deposited into the School District Trust Fund, the 0.125% for conservation, and the 0.1% for DNR would not be impacted.

ASSUMPTION (continued)

Section 144.701 (which is not included in this proposal) creates the 1% sales tax for the School District Trust Fund. That 1% tax rate is not changed within this proposal; therefore, it will not be subject to the reduction under Subsection 144.020.3. Both of the sales taxes directed towards conservation and DNR are constitutional and will also not be impacted by the rate reduction under Subsection 144.020.3.

B&P also notes that the 3% state sales tax is split between various funds. General revenue receives a 3% tax on all sales and use taxes except for the sales of motor vehicles. The general revenue portion cannot be reduced or raised without also reducing or raising the tax on motor vehicles. The 3% tax on motor vehicles is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions. B&P notes that the 3% state sales tax is the same tax, just distributed between various funds based on taxable item purchased.

For the purpose of this fiscal note, B&P will assume that the growth trigger is met in consecutive years, beginning with the first reduction in FY22 and ending with the last reduction in FY26.

Table 1 shows the sales tax rates under this proposal.

Table 1: State Sales Tax Rates

Levy	Current Law	Proposal				
		Fiscal Year 1	Fiscal Year 2	Fiscal Year 3	Fiscal Year 4	Fiscal Year 5
GR/MV	3.00%	2.90%	2.80%	2.70%	2.60%	2.50%
Education	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Conservation	0.125%	0.125%	0.125%	0.125%	0.125%	0.125%
Parks, Soil & Water	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Total	4.225%	4.125%	4.025%	3.925%	3.825%	3.725%

In FY19, there was \$2,237,149,579 in sales tax deposited into the general revenue fund, while during FY18 \$374,843,450 in sales tax was collected from the sales of motor vehicles. Based on the data, B&P estimates that each 0.1% reduction in the 3% state sales tax rate would reduce General Revenue by \$74,751,653 and motor vehicle sales tax revenue by \$12,494,782.

Therefore, B&P estimates that this proposal will reduce TSR and GR by \$74,571,653 in FY22. Once fully implemented, B&P estimates that this proposal will reduce TSR and GR by \$372,858,263. Table 2 shows the revenue impacts to funds.

ASSUMPTION (continued)

Table 2: Impacts to State Funds by Fiscal Year

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
State Funds					
General Revenue	(\$74,571,653)	(\$149,143,305)	(\$223,714,958)	(\$298,286,610)	(\$372,858,263)
State Road Bond Fund	(\$6,247,391)	(\$12,494,782)	(\$18,742,173)	(\$24,989,563)	(\$31,236,954)
State Road Fund	(\$4,560,595)	(\$9,121,191)	(\$13,681,786)	(\$18,242,381)	(\$22,802,977)
State Transportation Fund	(\$124,948)	(\$249,896)	(\$374,843)	(\$499,791)	(\$624,739)
TSR Impact	(\$85,504,587)	(\$171,009,174)	(\$256,513,760)	(\$342,018,345)	(\$427,522,933)
Local Funds					
Fuel Local Deposit (FLOYD)	(\$1,561,848)	(\$3,123,695)	(\$4,685,543)	(\$6,247,391)	(\$7,809,239)

Official from **Department of Natural Resources (DNR)** state their Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution.

The proposal states for all fiscal years beginning on or after July 1, 2021, the director of revenue shall reduce the rate of tax imposed in subsection 1 of section 144.020 by one-tenth of one percent if the total amount of net revenue collected by the state has increased in each of the previous three fiscal years by at least seventy-five million dollars and further states that no more than one reduction shall occur in a fiscal year and no more than five total reductions shall occur. Any reduction in the rate of tax imposed could have an impact on revenues for the Department of Natural Resources, Division of State Parks constitutional sales and use taxes.

The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials from **Department of Conservation (MDC)** state the proposal will have unknown fiscal impact but greater than \$100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

ASSUMPTION (continued)

Officials from **Missouri Department of Transportation** defer to DOR's estimates regarding the fiscal impact.

Oversight notes that Article IV, Section 47 of the Missouri Constitution, allows revenue received from an additional sales tax of one-tenth (1/10) of percent (1%) to be used for the conservation and management of the soil and water resources of Missouri and for the proper management of the state parks. The Parks Sales Tax Fund (0613) and the Soil and Water Sales Tax Fund (0614) each are to receive 50% of this additional sales tax funding. Furthermore, the DOR's and B&P both state this proposal will have no fiscal impact on MDC's or DNR's funds.

Oversight notes that DOR and B&P both show fiscal impact to MoDOT's State Road Bond Fund, State Road Fund, and State Transportation Fund. Furthermore, DOR & B&P both note the reduction in the sales tax rate could only occur on the 3% levy which is deposited into general revenue and various motor funds (from the 3% sales tax on vehicles). Therefore, for fiscal note purposes, Oversight assumes that the triggers will be met each fiscal year until all of the reductions are implemented on July 1, 2025.

FISCAL IMPACT -
State Government

	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
GENERAL REVENUE				
<u>Loss - 144,020.3</u> reduction in sales tax	\$0	(\$74,571,653)	(\$149,143,305)	(\$372,858,263)
ESTIMATED NET EFFECT ON GENERAL REVENUE*	<u>\$0</u>	<u>(\$74,571,653)</u>	<u>(\$149,143,305)</u>	<u>(\$372,858,263)</u>

* Fiscal Impact assumes triggers are met each year.

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
STATE ROAD BOND FUND (0319)				
<u>Loss - 144.020.3</u> reduction in sales tax*	<u>\$0</u>	<u>(\$6,247,391)</u>	<u>(\$12,494,782)</u>	<u>(\$31,236,954)</u>
ESTIMATED NET EFFECT ON STATE ROAD BOND FUND	<u>\$0</u>	<u>(\$6,247,391)</u>	<u>(\$12,494,782)</u>	<u>(\$31,236,954)</u>
STATE ROAD FUND (0320)				
<u>Loss - 144.020.3</u> reduction in sales tax*	<u>\$0</u>	<u>(\$4,560,595)</u>	<u>(\$9,121,191)</u>	<u>(\$22,802,977)</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	<u>\$0</u>	<u>(\$4,560,595)</u>	<u>(\$9,121,191)</u>	<u>(\$22,802,977)</u>
STATE TRANSPORTATION FUND (0675)				
<u>Loss - 144.020.3</u> reduction in sales tax*	<u>\$0</u>	<u>(\$124,948)</u>	<u>(\$249,896)</u>	<u>(\$624,739)</u>
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	<u>\$0</u>	<u>(\$124,948)</u>	<u>(\$249,896)</u>	<u>(\$624,739)</u>

* Fiscal Impact assumes triggers are met each year.

<u>FISCAL IMPACT - Local Government</u>	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2026)
POLITICAL SUBDIVISIONS				
<u>Loss - Fuel Local Deposit (FLOYD) 144.020.3 reduction in sales tax *</u>	<u>\$0</u>	<u>(\$1,561,848)</u>	<u>(\$3,123,695)</u>	<u>(\$7,809,239)</u>
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(\$1,561,848)</u>	<u>(\$3,123,695)</u>	<u>(\$7,809,239)</u>

* Fiscal Impact assumes triggers are met each year.

FISCAL IMPACT - Small Business

Small businesses will be impacted by collecting and paying a lower sales tax rate.

FISCAL DESCRIPTION

Beginning July 1, 2021, this bill requires the Director of the Department of Revenue to reduce the state sales tax rate by .1% whenever the total amount of net revenue collected by the state has increased in each of the three previous fiscal years by at least \$75 million. A rate reduction can only occur once in a fiscal year until the rate is reduced from 4.225% to 3.725%..

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-Budget & Planning
Department of Conservation
Department of Natural Resources
Missouri Department of Transportation



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February 10, 2020



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