

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3116-05  
Bill No.: HCS for SB 805  
Subject: Liens; Real and Personal Property; State Tax Commission; General Taxation and Revenue; Property Taxation and Revenue  
Type: Original  
Date: May 1, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$276,350 to Unknown)	(\$297,828 to Unknown)	(\$302,446 to Unknown)
<b>Total Estimated Net Effect on General Revenue Fund *</b>	<b>(\$276,350 to Unknown)</b>	<b>(\$297,828 to Unknown)</b>	<b>(\$302,446 to Unknown)</b>

\* Total of Unknown is expected to exceed \$6,000,000.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
School District Trust	(Unknown)	(Unknown)	(Unknown)
Parks and Soil	(Unknown)	(Unknown)	(Unknown)
Conservation	(Greater than \$100,000)	(Greater than \$100,000)	(Greater than \$100,000)
Various State Funds	(\$38,658)	(\$46,390)	(\$46,390)
<b>Total Estimated Net Effect on <u>Other</u> State Funds *</b>	<b>(\$38,658 to Unknown)</b>	<b>(\$46,390 to Unknown)</b>	<b>(\$46,390 to Unknown)</b>

\* Annual Unknown is expected to be greater than \$100,000.

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
<b>Local Government *</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\* Annual Unknown is expected to be greater than \$100,000.

### FISCAL ANALYSIS

#### ASSUMPTION

Officials from the **Department of Economic Development, Department of Public Safety – Missouri State Water Patrol, – Director’s Office**, and the **Boone County Collector** assume the proposal would have no fiscal impact on their agencies.

Officials from the **Department of Public Safety - Division of Fire Safety (DFS)** assume the proposal would not fiscally impact their agency. However the DFS will be responsible for approving training that meets the intent of the law. DFS estimates there are 625 Volunteer Fire Departments with 12,652 fire fighters. Additionally, there are 80 part volunteer/part paid departments with 3,211 fire fighters in the State of Missouri.

Officials from the **Office of Administration – Division of Budget and Planning (BAP)** assume the proposal would have no fiscal impact on their agency. However, officials state the proposal would impact general and total state revenues:

ASSUMPTION (continued)

§135.050 – Surviving Spouse Homestead Tax Credit – This proposal would have an unknown negative impact on general and total state revenues.

§135.610 – Volunteer Firefighter Tax Credit – The Department of Public Safety estimates there are approximately 14,250 volunteer firefighters that would qualify for the \$180 credit, which would reduce general and total state revenues by \$2.57 million. If all these volunteers qualify for the \$360 credit, general and total state revenues would be reduced an additional \$2.57 million.

§142.816 – Motor Fuel Tax for School Buses – This proposal will not impact general revenue, but may reduce total state revenues.

§144.030(22) – Motor Fuel for Agricultural Purposes – This will reduce general and total state revenues. BAP defers to Department of Revenue for an estimate.

§144.030(40) – Funeral-Related Sales – This will reduce general and total state revenues, perhaps substantially. BAP defers to Department of Revenue for an estimate.

§ 144.054 Exempts utilities, used in producing certain products from taxation.

Officials from the **Department of Revenue** assume this section would allow for the exemption of sales tax on utilities used in the manufacturing, processing, compounding, mining, or producing of pesticides, meat, pet food, production of livestock, feed for livestock or poultry, and any product defined under NAICS, or purchased for the use or development of agricultural biotechnology products and prescription pharmaceuticals for consumption by humans or animals, and tangible personal property purchased for use or consumption directly in the research and development of agricultural biotechnology products.

Revenue has reviewed the appropriate utility code and determined there could be up to \$6.5 million in sales tax loss.

**Oversight** has no data to determine the actual loss, however, we have determined the loss will be greater than \$100,000.

§§144.070, 144.440 – Sales Tax Exemptions for the Cost of Disabled Modifications – Literature from the NHTSA notes the costs of these modifications vary greatly, and vehicles can cost from \$20,000 to \$80,000. BAP defers to Department of Revenue for an estimate of this impact, but assumes this will reduce general and total state revenues, perhaps significantly.

ASSUMPTION (continued)

Section 1 – Buy-Down Provisions – This will reduce general and total state revenues, perhaps significantly. BAP defers to Department of Revenue for an estimate of the impact.

Officials from the **Department of Revenue (DOR)** estimates the fiscal impact of the various provisions in the proposal as follows:

§135.050 – Taxpayers will be required to submit a copy of the property tax receipt showing “paid” and the amount paid. DOR assumes there will not be a large quantity of qualifying taxpayers using this credit. Personal Tax & Customer Service will handle additional workload with existing personnel.

§135.610 – Authorizes an income tax credit for volunteer firefighters, beginning January 1, 2006, providing the taxpayers meet certain criteria. (ie: Completion of a particular training program)

Based on figures provided by the State Fire Marshal’s Office, there are 625 volunteer fire departments in the State of Missouri, containing a total of 12,652 volunteer firefighters. There are also listed, 80 departments that file with the Marshal’s Office as “part-paid/part-volunteer,” meaning some of their crew are paid personnel & the rest are on a volunteer basis. The firefighters located in these 80 departments total 3,211; however, there is no way of determining how many from each department is paid and how many are on a volunteer basis. DOR’s figures will be based only on the 12,652 volunteer firefighters. After consulting with the Fire Marshal’s office, DOR believes approximately seventy-five percent of the firefighters will take the classes and claim the credit. ( $12,652 \times 75\% = 9489$  credit applications)

These applicants will no longer be able to E-file their returns thus increasing the number of paper returns to be processed.

Personal Tax (PT) – This new credit will require an additional line on the MO-TC form. PT will require 2 FTE Tax Processing Technicians I (each at \$22,992 per year) for processing and tracking of the credit. PT would also require one Temporary Tax Employee (at \$7.50 per hour) for the additional key-entry, one Tax Processing Technician I for maintenance and handling correspondence, for every 2,400 pieces of correspondence received (total for maintenance and correspondence = 3.5 FTE (at \$22,922 per year)), and one Tax Processing Technician I for every 6,000 credits claimed with the carry-forward provisions (total for carry forward processing = 1.5 FTE ( $9,400$  firefighters /  $6,000$  credits claimed)).

IT - This legislation will require modifications to individual and corporate income tax systems.

ASSUMPTION (continued)

Taxation estimates these modifications will require a MINITS programming costs of \$46,170(1,384 hours). COINS will also need to be modified for a programming cost of 23,085 (692 hours). The DOR proposes to cover these costs with current IT staff. In the event multiple new credits/deductions are passed, this cost could exceed current appropriation levels and result in additional funds being requested.

§142.816 provides a state tax exemption to school districts on their purchases of fuel used to operate buses for educational purposes. There is no impact on the DOR.

§144.030.2(22) – During FY05, DOR collected approximately \$160,000 in sales tax (state only) on refunds of clear diesel fuel sold for agricultural purposes. When calculating refunds, the excise tax area bases the tax rate on the state rate only; therefore, the amount of revenues collected using local rates is undeterminable. The exemption added in Section 144.030 would create a loss of these revenues.

There are no sales taxes collected on gasoline; therefore, no additional revenues would be lost.

Currently the retailer charges sales tax (both state & local) on ½ of the purchase price of dyed diesel fuel purchased for agricultural purposes. DOR cannot determine how much sales tax is currently being collected on these purchases, therefore, cannot provide an estimate of lost revenues on dyed diesel fuel.

Kerosene is subject to motor fuel tax. If it is used for non-highway purposes, then a refund may be claimed. Sales tax is then charged against the refund unless it was used for home heating purposes.

This exemption would lessen the burden on the retailer on collecting sales tax. And DOR excise personnel would not have to calculate the price per gallon and the sales tax on refunds of motor fuel for agricultural purposes. This would reduce the process time on those particular refunds.

§§144.070 & 144.440 – These provisions allow the purchase price of a motor vehicle to be reduced by the cost of modifying the motor vehicle to permit a disabled individual to use such vehicle, therefore, reducing the amount of taxes paid to the Department of Revenue.

Section 1 – Establishes language stating sales tax shall only apply to the sales price paid by the final purchaser and not to any off-invoice discounts or other pricing discounts negotiated between manufacturers, wholesalers, and retailers. This would cause a reduction in revenues.

ASSUMPTION (continued)

Currently, when a retailer sells a product to the public for a specified price and the manufacturer offers the retailer a discount to sell it to the public for less (the manufacturer would pay the retailer the difference), DOR would consider the “specified price” as gross receipts & tax the retailer and the full amount charged. This legislation would allow the tax to only be applied to the “reduced price” the retailer charges the public; therefore, reducing revenues. No other impact is anticipated.

In summary, DOR assumes the proposal will require 7 new FTE and result in a cost of roughly \$280,000 annually to administer the program.

Based on DOR responses to other tax credit programs this year, **Oversight** will assume DOR could administer this program with an additional 5 FTE plus the one additional temporary employee. Oversight will also assume DOR will not pay for additional floor space in Jefferson City for the additional FTE.

**Oversight** will range the fiscal impact of the tax credit from \$0 (no firefighters taking advantage of the credit) to \$5.7 million (estimated 14,250 volunteer firefighters x \$400 maximum tax credit) in losses to the General Revenue Fund. The fiscal impact could be substantially less if fewer firefighters apply for the credit and if those that do apply for the credit only qualify for the \$200 credit instead of the \$400 credit. The credit is for tax years beginning on or after January 1, 2006, therefore, Oversight will show a potential loss from the proposal in FY 2007.

**Oversight** assumes the exemptions on diesel fuel sold for agricultural purposes will be 10/12ths of a year of fiscal impact in FY 2007 with an effective date of August 28, 2006. Oversight assumes the \$160,000 in annual sales taxes that will no longer be collected as a result of this proposal will be divided between the four funds that comprise the state sales tax as shown below.

<u>Fund</u>		<u>Percentage of rate</u>	<u>Percentage of \$160,000</u>
General Revenue	3.000%	71%	\$113,610
School District Trust Fund	1.000%	24%	\$ 37,870
Parks and Soils	.100%	2%	\$ 3,790
Conservation	.125%	3%	\$ 4,730
	4.225%	100%	\$160,000

In response to a similar proposal from the current session (HB 1140, LR # 3241-01), officials from the **Department of Public Safety** stated the number of law enforcement deaths (including Department of Corrections) in the past several years has been 8 in 2005, 3 in 2004, 2 in 2003, 6 in 2002, 6 in 2001 and 5 in 2000. These do not include firefighters, park rangers, emergency

ASSUMPTION (continued)

medical technicians or other categories of public safety officers eligible under the proposal. Assuming the number of public safety officers dying in the line of duty per year of 10 and a property tax bill of \$1,500, this would result in loss of general revenue of \$15,000 in a given year. Many factors could impact this estimate, therefore, **Oversight** will assume the proposal would have negative fiscal impact on General Revenue, expected to be less than \$100,000.

In response to a previous version of the proposal (Perfect SB 805, LR # 3116-02), officials of the **State Tax Commission** assume this proposal requires the Tax Commission to provide to the County Collectors a standardize format for the affidavits and notices outlined in this proposal. Officials assume they would provide to the counties a sample to each Collector. Officials assume each county will supply their own forms for distribution to purchasers of property. Officials assume each county will pay the cost of printing these forms. Officials assume no cost to the Tax Commission.

Officials from the **Department of Conservation (MDC)** would have a fiscal impact on MDC funds. The exact amount of impact is unknown, but is expected to be less than \$100,000 annually.

In response to a previous version of the proposal (Perfect SB 805, LR # 3116-02), **Jasper County** officials assume no fiscal impact.

In response to a previous version of the proposal (Perfect SB 805, LR # 3116-02), Officials of the **Cass County Clerk's Office** assume no fiscal impact.

**Oversight** assumes the cost to County Collectors of printing forms as required by this proposal would be insignificant and could be defrayed with existing appropriations.

**Oversight** assumes any loss of revenue to political subdivisions derived from the provisions of Section 140.250.1, which allows property being sold for a third time to be sold for a less amount, would not be significant. **Oversight** assumes that property being offered for sale a third time, would be property which is not desirable, or has some legal issues, and the amount of delinquent tax would not be great.

**Oversight** assumes that by allowing property which has been offered for sale for two successive years, and is offered for sale a third time, to be sold at a less amount than the amount in the delinquent tax book plus costs, would take that property on which no tax is currently being paid, and would place the property in the ownership of a new owner which would once again be paying taxes on that property.

ASSUMPTION (continued)

**Oversight** assumes that although political subdivisions would possibly lose some revenue from the reduced sale price, they would realize revenue that is currently not being paid on the property being sold.

**Oversight** assumes no fiscal impact to political subdivisions.

**This proposal will decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE FUND</b>			
<u>Costs</u> – Department of Revenue			
Personal Service (5 FTE)	(\$98,195)	(\$120,780)	(\$123,799)
Fringe Benefits	(\$43,265)	(\$53,216)	(\$54,546)
Expense and Equipment	(\$33,015)	(\$2,657)	(\$2,737)
Temporary Employees	<u>(\$7,200)</u>	<u>(\$7,565)</u>	<u>(\$7,754)</u>
<u>Total Costs</u> – DOR	(\$181,675)	(\$184,218)	(\$188,836)
<u>Loss</u> – Income Tax Credits Claimed for homestead by surviving spouses	\$0	(Less than \$100,000)	(Less than \$100,000)
<u>Loss</u> – Tax Credit for volunteer firefighter training	\$0 to (\$5,700,000)	\$0 to (\$5,700,000)	\$0 to (\$5,700,000)
<u>Loss</u> – sales tax revenue from exemption of diesel fuel used for agricultural purposes	(\$94,675)	(\$113,610)	(\$113,610)
Loss - sales tax revenue from exemption of tax on utilities. (Section 144.054) *	(Unknown)	(Unknown)	(Unknown)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND **</b>	<b><u>(\$276,350 to Unknown)</u></b>	<b><u>(\$297,828 to Unknown)</u></b>	<b><u>(\$302,446 to Unknown)</u></b>



<u>FISCAL IMPACT - State Government</u> (continued)	FY 2007 (10 Mo.)	FY 2008	FY 2009
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**\* Unknown expected to exceed \$100,000.**

**\*\* Total expected to exceed \$6,000,000.**

**SCHOOL DISTRICT TRUST FUND**

<u>Loss</u> - sales tax revenue from exemption on sales tax. (Section 144.054)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT TO SCHOOL DISTRICT TRUST FUND *</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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**CONSERVATION FUND**

<u>Losses</u> – Department of Conservation Reduced sales tax revenue (section 144.054 and others)*	<u>(Greater than \$100,000)</u>	<u>(Greater than \$100,000)</u>	<u>(Greater than \$100,000)</u>
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<b>ESTIMATED NET EFFECT ON CONSERVATION FUND</b>	<b><u>(Greater than \$100,000)</u></b>	<b><u>(Greater than \$100,000)</u></b>	<b><u>(Greater than \$100,000)</u></b>
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**PARKS AND SOIL FUND**

<u>Loss</u> - to Parks and Soil Fund from sales tax exemption (section 144.054)	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT TO PARKS AND SOIL FUND *</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
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**VARIOUS STATE FUNDS**

<u>Loss</u> – sales tax revenue from exemption of diesel fuel used for agricultural purposes	<u>(\$38,658)</u>	<u>(\$46,390)</u>	<u>(\$46,390)</u>
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<b>ESTIMATED NET EFFECT TO VARIOUS STATE FUNDS</b>	<b><u>(\$38,658)</u></b>	<b><u>(\$46,390)</u></b>	<b><u>(\$46,390)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
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**POLITICAL SUBDIVISIONS**

Loss - from sales tax exemption on certain products. (section 144.054)

<b>ESTIMATED NET EFFECT TO LOCAL GOVERNMENT *</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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**\* Loss of income from sales tax exemption allowed in Section 144.054 is expected to exceed \$100,000 annually.**

FISCAL IMPACT - Small Business

Small farming or agricultural businesses could see a savings in diesel fuel sales taxes as a result of this proposal.

DESCRIPTION

The proposed legislation allows the county collector for first class counties without a charter form of government and second class counties to maintain back tax books electronically or otherwise. The county collector of such counties may disburse money via electronic transfer of funds from the collector's account into the accounts of the appropriate taxing entities.

DESCRIPTION (continued)

The county auditor, of first class counties without a charter form of government and second class counties, will have access to and may periodically examine all records, collections, and settlements for all licenses issued by the county. The county collector of such counties must make available, electronically or otherwise, a report of receipts, deposits, and balance in the collector's hands. The collector must also make available, electronically or otherwise, a report to the auditor of all other sums of money collected by the collector from any other source. Any taxing authority may, in writing, request to be notified by the county collector of current taxes paid under protest. Such request must be submitted before February first following the delinquent date of current taxes paid under protest. The county collector must then provide the requested information on or before March first of the same year. County collectors for first class counties without a charter form of government and second class counties must file a detailed statement, verified by affidavit of all state, county, school, road, and municipal taxes and licenses collected during in the proceeding month to the county clerk and auditor before the fifteenth of each month. Under this proposal, delinquent personal property taxes shall be subject to the same interest and penalties prescribed for delinquent real property taxes.

The proposal permits the acceptance of a purchase bid for less than cost when property is offered for sale for the third time in a tax sale. Costs of performing the title search and mailing required notifications are reimbursed to the purchaser upon redemption. The proposal further provides for the State Tax Commission to supply a standard format for notices and affidavits required in tax sale situations.

The proposal modifies the membership requirements for the board of directors and the sales tax provision for community improvement districts. Under the current law, a community improvement district may, by resolution, impose a sales tax at a rate of 1/8, 1/4, 3/8, 1/2 of one percent. The proposal allows the sales tax to be imposed in increments of one-eighth of one percent, up to a maximum of one percent.

The proposal authorizes an individual income tax credit for tax years beginning on or after January 1, 2007, for the amount of real property taxes paid on a homestead by surviving spouses of certain public safety officers. The public safety officer must have been killed in the line of duty and must have been an employee of the State of Missouri or any political subdivision of the state. The provisions of the tax credit program will expire six years from the effective date.

The proposal allows a \$180 tax credit for volunteer firefighters who complete at least 12 hours of any firefighter training program approved by the State Fire Marshal in the tax year the credit is claimed.

DESCRIPTION (continued)

If the firefighter has completed at least 30 hours of training after the initial 12 hours of training, the firefighter may claim a \$360 credit in any tax year that 12 hours of training are completed. The tax credit is not refundable but can be carried over for up to four years. The provisions of the tax credit program will terminate six years from the effective date unless reauthorized.

The proposal exempts motor fuel sold to be used to operate buses to transport students to or from school or to transport students for educational purposes from the fuel tax imposed by Chapter 142.

The proposal specifies that the purchase price for calculating the sales tax of a motor vehicle excludes the cost to modify the vehicle for use by an individual with disabilities.

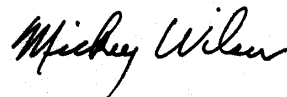
The proposal authorizes a sales tax exemption on the purchase of coffins, caskets, burial vaults, and other funeral merchandise.

The proposal authorizes an exemption from state and local sales and use tax for the cost of all utilities used in the manufacturing, processing, compounding, mining, or production of pesticides, meat, petfood, livestock and poultry feed, purchases for research and development of agricultural biotechnology products, and prescription pharmaceuticals. The proposal also exempts the current sales tax on one half of the purchase price of diesel fuel used for agricultural purposes.

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 Administration  
    – Division of Budget and Planning  
Department of Economic Development  
Department of Revenue  
Department of Public Safety  
    – Missouri State Water Patrol  
    – Director's Office  
    – Division of Fire Safety  
Department of Conservation  
State Tax Commission  
Boone County Collector  
Jasper County  
Cass County Clerk's Office



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May 1, 2006