

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3378-02
Bill No.: SCS for SB 744
Subject: Agriculture and Animals; Motor Fuel; Taxation and Revenue - Sales & Use.
Type: Original
Date: February 17, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$94,675)	(\$113,610)	(\$113,610)
Total Estimated Net Effect on General Revenue Fund	(\$94,675)	(\$113,610)	(\$113,610)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Various State Funds	(\$38,658)	(\$46,390)	(\$46,390)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$38,658)	(\$46,390)	(\$46,390)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Agriculture** assume this proposal will not fiscally impact their agency.

Officials from the **Department of Transportation (MoDOT)** state under current law, an exemption from local sales tax is permitted for half of the purchase amount of diesel fuel used solely for agricultural purposes. This legislation completely exempts purchases of diesel fuel for agricultural purposes from local sales taxes. Because the use of the diesel fuel is intended solely for agricultural purposes and not for transportation on the public highways of the state, this fuel, even if taxed, would not produce state revenues derived from highway users. MoDOT assumes, therefore, the proposal would not fiscally impact their agency.

Officials from the **Department of Revenue (DOR)** state during FY 2005, the department collected approximately \$160,000 in sales taxes (state only) on refunds of clear diesel fuel sold for agriculture purposes. This amount would be exempted under this legislation. DOR states 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 1/2 of the purchase price of dyed diesel fuel purchased for agricultural purposes. DOR cannot determine how much sales tax is

ASSUMPTION (continued)

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 collecting sales tax. Also, 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.

However, there is some potential for falsely claiming other types of refunds as agricultural refunds. For example, when the price per gallon is high, the sales tax on refunds greatly reduces the overall amount of the refund. Therefore, in order to get a larger portion of the motor fuel refund, unscrupulous entities may falsely claim a refund of motor fuel as agricultural, instead of what it was truly intended for (ie. construction).

Even though there may be a loss in total state revenues, this legislation will not create an impact on Taxation. DOR estimates a loss to the General Revenue fund of \$160,000 in all three fiscal years. DOR states the local sales tax on this fuel is not collected, therefore, the proposal would not fiscally impact the local governments.

Officials from the **Office of Administration - Budget and Planning (BAP)** states that the proposal would not fiscally impact their agency. BAP states the Department of Revenue estimates that \$160,000 was collected in diesel fuel taxes in FY 2005. BAP assumes a similar amount would be collected in FY 2006. Therefore, BAP assumes a loss to general revenue resulting from this proposal.

In response to a previous version of the proposal, officials from **St. Louis County** state when a fuel retailer sells diesel fuel for agricultural purposes and determines that 'motor fuel tax' is not to be charged, sales tax is then charged on the sale of diesel fuel. St. Louis County state it appears that the fiscal impact on their county would be minimal.

In response to a previous version of the proposal, officials from the **City of Kansas City** assumed the proposal would have no adverse or beneficial fiscal impact on the city.

In response to a previous version of the proposal, officials from **Jefferson County** assumed the proposal would have a minimum fiscal impact to their county.

ASSUMPTION (continued)

In response to a similar proposal from this year (SB 739), officials from **Jasper County** assumed the proposal would not fiscally impact their county.

Oversight assumes there 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

This proposal will reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Loss</u> - sales tax revenue from exemption of diesel fuel used for agricultural purposes	<u>(\$94,675)</u>	<u>(\$113,610)</u>	<u>(\$113,610)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$94,675)</u>	<u>(\$113,610)</u>	<u>(\$113,610)</u>
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>
ESTIMATED NET EFFECT TO VARIOUS STATE FUNDS	<u>(\$38,658)</u>	<u>(\$46,390)</u>	<u>(\$46,390)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

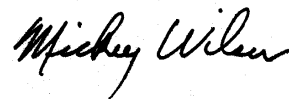
DESCRIPTION

Under current law, an exemption from local sales tax is permitted for half of the purchase amount of diesel fuel used for agricultural purposes. This act completely exempts purchases of motor fuel for agricultural purposes from local sales tax.

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 Agriculture
Office of Administration - Budget and Planning
Department of Revenue
Department of Transportation
Jasper County
City of Kansas City
Jefferson County
St. Louis County



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