

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5401-01  
Bill No.: SB 1281  
Subject: Boats and Watercraft; Motor Vehicles; Revenue Dept.; Taxation and Revenue -  
Sales and Use  
Type: Original  
Date: March 12, 2008

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Bill Summary: Would require motor vehicle dealers to collect and remit sales tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
General Revenue	(\$272,542)	(\$292,052)	(\$300,019)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$272,542)</b>	<b>(\$292,052)</b>	<b>(\$300,019)</b>

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

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Highway	(Less than \$6,931,996)	(Less than \$8,371,292)	(Less than \$8,371,292)
State Road Bond	\$8,346,730	\$10,016,075	\$10,016,075
State Transportation	\$222,639	\$267,167	\$267,167
State Road	\$8,124,091	\$9,748,909	\$9,748,909
Motor Vehicle Commission	(\$5,390)	\$0	\$0
School District Trust	\$2,862,384	\$3,434,861	\$3,434,861
Conservation Commission	\$705,686	\$846,823	\$846,823
Parks, and Soils and Water	\$564,267	\$677,120	\$677,120
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>More than \$13,888,411</b>	<b>More than \$16,619,663</b>	<b>More than \$16,619,663</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</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 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
General Revenue	8	8	8
<b>Total Estimated Net Effect on FTE</b>	<b>8</b>	<b>8</b>	<b>8</b>

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
<b>Local Government</b>	<b>\$19,808,333</b>	<b>\$23,770,001</b>	<b>\$23,770,001</b>

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## **FISCAL ANALYSIS**

### ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** provided the following response.

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 SOS 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 **Office of Administration, Administrative Hearing Commission**, assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of Administration, Division of Budget and Planning**, assume this proposal would not result in additional costs or savings to their organization. This proposal would require motor vehicle dealers to collect and remit sales and property taxes on motor vehicle and boat sales. To the extent this proposal would eliminate the avoidance of sales and property tax payments by buyers, this proposal would increase general and total state revenues, dedicated funds, and local funds. BAP defers to the Department of Revenue for an estimate of any such impact.

Officials from the **Department of Revenue (DOR)** assume that any person licensed as a new or used motor vehicle dealer would be required to collect and remit sales tax at the time of sale on all motor vehicles, trailers, or boats. Such person would receive no salary from DOR but would be allowed to retain two percent of the sales tax collected and remitted. Motor vehicle dealer would be considered agents of DOR and could accept credit card payments.

### Administrative Impact

DOR officials assume that DOR would stated that DOR would need to revise related policies and procedures, notify all motor vehicle dealers, leasing companies and salvage dealers regarding this legislation, and revise related tax procedures. DOR officials assume there would be a cost of \$5,390 to the Motor Vehicle Commission Fund for these notifications.

ASSUMPTION (continued)

DOR officials assume that by requiring dealers to collect sales tax at the time of purchase the department would process 59,701 additional transactions per year which would require additional funding of \$23,185 in FY '09, \$28,656 in FY '10, and \$29,515 in FY '11 for printing titles and envelopes, and postage to mail them to the owner. Due to purchasers having to pay sales tax to the dealer there would be a decrease in the amount of delinquent fee letters issued. In FY07, there were a total of 82,330 delinquent fee letters due to unpaid motor vehicle/marine dealer sales transactions. IF this proposal was implemented DOR would not need to mail the delinquent fee letters, and DOR officials assume cost savings of amount of \$32,520 in FY '09, and \$33,496 in FY '10 and FY '11 for letters, postage, and envelopes.

DOR officials estimated staffing requirements as follows.

- \* Customer Assistance would require one FTE Tax Processing Technician I for every 8,300 registrations/maintenance to business tax accounts, one FTE Tax Collection Technician I for every 24,000 calls a year to the delinquency phone line, and three FTE Tax Processing Technician I for every additional 4,800 contacts in the field offices. Taxation anticipates most customers would contact the department via phone and would only request additional staff for the larger field offices in Kansas City, St. Louis, and Springfield.
- \* Cashiering and Processing would require one FTE Tax Processing Technician I for every additional 22,000 data-entry returns, one FTE Tax Processing Technician I for every additional 11,000 returns to be verified, and one FTE Tax Processing Technician I for every additional 18,000 pre-edited returns.

DOR provided an estimated cost to implement this proposal including eight additional employees with related equipment and expenditures totaling \$317,392 for FY 2009, \$338,947 for FY 2010, and \$349,113 for FY 2011.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR equipment and expense estimates in accordance with OA budget guidelines.

Fiscal Impact

DOR officials based their estimate of fiscal impact on internal reports which indicated there were approximately 58,775 vehicles purchased from dealers and 926 boats and outboard motors purchased from dealers who would be required to pay sales tax directly to the dealer at the time of sale. DOR estimated that each vehicle purchased from a dealers but not licensed would represent an uncollected average state sales tax of \$480 and an uncollected average \$340 of local sales tax. The DOR estimate of uncollected taxes on boats and outboard motors would represent an average of \$439 in state sales tax and an average of \$312 in local sales tax each.

DOR provided an estimate of the distribution of uncollected state and local sales taxes.

Motor Vehicle/Marine Sales Tax Increase

	<u>FY'09</u>	<u>FY'10</u>	<u>FY'11</u>
General Revenue	\$240,658	\$288,790	\$288,790
State Road Bond Fund	\$8,346,730	\$10,016,075	\$10,016,075
State Transportation Fund	\$222,639	\$267,167	\$267,167
State Road Fund	\$8,124,091	\$9,748,909	\$9,748,909
School District Trust	\$2,862,384	\$3,434,861	\$3,434,861
Conservation Tax	\$705,686	\$846,823	\$846,823
Park/Soil Tax	\$564,267	\$677,120	\$677,120
Cities	\$10,136,489	\$12,163,787	\$12,163,787
Counties	\$9,580,009	\$11,496,011	\$11,496,011
Total State Revenue	<u>\$21,066,454</u>	<u>\$25,279,745</u>	<u>\$25,279,745</u>
Total Local Revenue	<u>\$19,716,498</u>	<u>\$23,659,797</u>	<u>\$23,659,797</u>
Total	<u>\$40,782,952</u>	<u>\$48,939,542</u>	<u>\$48,939,542</u>

There would also be an increase in title fees from the 58,775 vehicle purchasers and 926 vessel/outboard motor purchasers who would apply for title at \$8.50 and \$7.50 each respectively. Title fees are distributed as follows: \$1 to Highway Fund, and the remaining \$7.50 is distributed 75% to the Highway Fund, 15% to cities, and 10% to counties.

ASSUMPTION (continued)

DOR provided an estimate of the distribution of uncollected motor vehicle title fees..

MV Title Fee Increase

	<u>FY'09</u>	<u>FY'10</u>	<u>FY'11</u>
Cities:	\$55,101	\$66,122	\$66,122
Counties	\$36,734	\$44,081	\$44,081
Highway Fund	\$368,567	\$389,383	\$389,383
Total	<u>\$416,322</u>	<u>\$499,586</u>	<u>\$499,586</u>

DOR provided an estimate of the increase in marine title fees to the General Revenue Fund.

	<u>FY'09</u>	<u>FY'10</u>	<u>FY'11</u>
	<u>\$5,790</u>	<u>\$6,948</u>	<u>\$6,948</u>

DOR officials stated that there would be an unknown increase in revenue from penalties assessed to dealers who fail to remit sales tax to the department in a timely manner. In addition, DOR officials stated that nearly all of these penalties would be deposited into the Highway Fund.

**Oversight** will indicate an unknown increase in revenue for the Highway Fund for penalties, and will not indicate any additional revenue from penalties to other funds.

DOR assumes that because applicants would be paying sales tax up front, there would no longer be a reason to delay applying for title so there would be a projected decrease in title penalties each year of \$8,760,675 to the Highway Fund for vehicle sales and \$322,210 to General Revenue for marine sales transactions each year.

The proposal would stipulate that 50% of local sales tax is to be based on the address of the seller and 50% on the address of the purchaser. This could result in a significant unknown redistribution of sales tax among cities and counties.

ASSUMPTION (continued)

DOR provided this estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates that this legislation could be implemented utilizing four existing CIT III's for four 4 months for changes to the sales tax systems at a total cost of \$4,186, and three existing CIT III's for two months for changes to the motor vehicle systems at a total cost of \$4,186. ITSD/DOR assumes the IT portion of this request could be accomplished with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

**Oversight** will use the DOR assumptions for revenue.



<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Revenue increase</u> - Department of Revenue			
Marine sales tax	\$240,658	\$288,790	\$288,790
Marine title fees	<u>\$5,790</u>	<u>\$6,948</u>	<u>\$6,948</u>
Totals	<u>\$246,448</u>	<u>\$295,738</u>	<u>\$295,738</u>
<u>Savings</u> - Department of Revenue			
Reduction in delinquency notice printing and mailing	<u>\$32,520</u>	<u>\$33,496</u>	<u>\$34,500</u>
<u>Revenue reduction</u> - Department of Revenue			
Marine title penalties	<u>(\$268,508)</u>	<u>(\$322,210)</u>	<u>(\$322,210)</u>
<u>Cost</u> - Department of Revenue			
Personal Service (8 FTE)	(\$146,800)	(\$181,445)	(\$186,888)
Fringe Benefits	(\$64,915)	(\$80,235)	(\$82,642)
Expense and Equipment	<u>(\$48,103)</u>	<u>(\$8,740)</u>	<u>(\$9,002)</u>
Total	<u>(\$259,818)</u>	<u>(\$270,420)</u>	<u>(\$278,532)</u>
<u>Cost</u> - Department of Revenue			
Additional title printing and mailing	<u>(\$23,184)</u>	<u>(\$28,656)</u>	<u>(\$29,515)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$272,542)</u></b>	<b><u>(\$292,052)</u></b>	<b><u>(\$300,019)</u></b>
Estimated Net FTE Effect on General Revenue Fund	8	8	8

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>HIGHWAY FUND</b>			
<u>Revenue increase - DOR</u>			
Title fees	<u>\$368,567</u>	<u>\$389,383</u>	<u>\$389,383</u>
<u>Revenue increase - DOR</u>			
Dealer penalties	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Revenue reduction - DOR</u>			
Title penalties	<u>(\$7,300,563)</u>	<u>(\$8,760,675)</u>	<u>(\$8,760,675)</u>
<b>ESTIMATED NET EFFECT ON HIGHWAY FUND</b>	<b><u>(More than \$6,931,996)</u></b>	<b><u>(More than \$8,371,292)</u></b>	<b><u>(More than \$8,371,292)</u></b>
<b>STATE ROAD BOND FUND</b>			
<u>Revenue increase - DOR</u>			
Sales tax	<u>\$8,346,730</u>	<u>\$10,016,075</u>	<u>\$10,016,075</u>
<b>ESTIMATED NET EFFECT ON STATE ROAD BOND FUND</b>	<b><u>\$8,346,730</u></b>	<b><u>\$10,016,075</u></b>	<b><u>\$10,016,075</u></b>
<b>STATE TRANSPORTATION FUND</b>			
<u>Revenue increase - DOR</u>			
Sales tax	<u>\$222,639</u>	<u>\$267,167</u>	<u>\$267,167</u>
<b>ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND</b>	<b><u>\$222,639</u></b>	<b><u>\$267,167</u></b>	<b><u>\$267,167</u></b>
<b>STATE ROAD FUND</b>			
<u>Revenue increase - DOR</u>			
Sales tax	<u>\$8,124,091</u>	<u>\$9,748,909</u>	<u>\$9,748,909</u>
<b>ESTIMATED NET EFFECT ON STATE ROAD FUND</b>	<b><u>\$8,124,091</u></b>	<b><u>\$9,748,909</u></b>	<b><u>\$9,748,909</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>MOTOR VEHICLE COMMISSION FUND</b>			
<u>Cost - DOR</u>			
Printing and postage for dealer notification	<u>(\$5,390)</u>	<u>\$0</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON MOTOR VEHICLE COMMISSION FUND</b>	<b><u>(\$5,390)</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Revenue increase - DOR</u>			
Sales tax	<u>\$2,862,384</u>	<u>\$3,434,861</u>	<u>\$3,434,861</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>\$2,862,384</u></b>	<b><u>\$3,434,861</u></b>	<b><u>\$3,434,861</u></b>
<b>CONSERVATION COMMISSION FUND</b>			
<u>Revenue increase - DOR</u>			
Sales tax	<u>\$705,686</u>	<u>\$846,823</u>	<u>\$846,823</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>\$705,686</u></b>	<b><u>\$846,823</u></b>	<b><u>\$846,823</u></b>

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<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>PARKS, AND SOILS AND WATER FUND</b>			
<u>Revenue increase - DOR</u>			
Sales tax	<u>\$564,267</u>	<u>\$677,120</u>	<u>\$677,120</u>
<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND</b>			
	<b><u>\$564,267</u></b>	<b><u>\$677,120</u></b>	<b><u>\$677,120</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>LOCAL GOVERNMENTS</b>			
<u>Revenue increase - Cities</u>			
Sales tax	\$10,136,489	\$12,163,787	\$12,163,787
Tile fees	<u>\$55,101</u>	<u>\$66,122</u>	<u>\$66,122</u>
Total Cities	<u>\$10,191,590</u>	<u>\$12,229,909</u>	<u>\$12,229,909</u>
<u>Revenue increase - Counties</u>			
Sales tax	\$9,580,009	\$11,496,011	\$11,496,011
Title fees	<u>\$36,734</u>	<u>\$44,081</u>	<u>\$44,081</u>
Total Counties	<u>\$9,616,743</u>	<u>\$11,540,092</u>	<u>\$11,540,092</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>			
	<b><u>\$19,808,333</u></b>	<b><u>\$23,770,001</u></b>	<b><u>\$23,770,001</u></b>

FISCAL IMPACT - Small Business

This proposal would have a fiscal impact to small businesses which sell motor vehicles or boats.

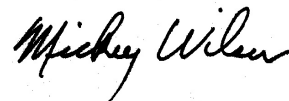
FISCAL DESCRIPTION

This proposal would require motor vehicle dealers to collect and remit 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

Office of the Secretary of State  
Office of Administration  
    Administrative Hearing Commission  
    Division of Budget and Planning  
Department of Revenue



Mickey Wilson, CPA  
Director  
March 12, 2008