COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0215-01
Bill No.: SJR 1
Subject: Constitutional Amendments; General Assembly; Governor; Revenue Dept.; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: April 20, 2011

Bill Summary: Would propose a constitutional amendment replacing all current taxes on income with a sales and use tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	$0 or (More than $7,231,504)	$0 or ($2,448,403)	$0 or ($1,536,142)
Total Estimated Net Effect on General Revenue Fund	**$0 or (More than $7,231,504)**	**$0 or ($2,448,403)**	**$0 or ($1,536,142)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 24 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Governor** assume there would be no added cost to their organization as a result of this proposal.

Officials from the **Office of the Secretary of State** (SOS) stated that unless a special election is called for the purpose, Joint Resolutions are submitted to a vote of the people at the next general election. If a special election is called to submit a Joint Resolution to a vote of the people, state law requires the state to pay the costs. The Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people and the state constitution authorizes the governor to call a special election to submit constitutional amendments to a vote of the people.

The SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by the Missouri Constitution and state law. SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.3 million historically appropriated in odd numbered fiscal years and $100,000 appropriated in even numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the number of initiative petitions certified for the ballot.

In FY 2011, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost $1.02 million to publish (an average of $170,000 per issue). Therefore, SOS assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

ASSUMPTION (continued)

This bill would require SOS to promulgate rules. Those rules would be published by our division in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, and current rules of the Department of Revenue regarding income tax and sales tax, the rules, regulations, and forms issued by the Department of Revenue could require as many as 290 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes, and the like are not repeated in the Code. The estimated cost of a page in the Missouri Register is $23.00, and the estimated cost of a page in the Code of State Regulations is $27.00. SOS officials indicated a cost of ((290 pages x $27) = $7,830)+(435 pages x $23) = $10,005)=$17,835.

Oversight assumes SOS could publish the rules required for this proposal with existing resources. If unanticipated costs are incurred, or if multiple proposals are enacted which create a significant additional workload for SOS, resources could be requested through the budget process.

Officials from the **Office of the Attorney General** assume that any potential costs arising from this proposal could be absorbed with existing resources.

Officials from the **Office of the State Treasurer** assume this proposal would have no fiscal impact to their organization.

Officials from the **Missouri Senate** assume this proposal would either no cost to their organization, or a minimal cost which could be absorbed with existing resources.

Officials from the **Missouri House of Representatives** assume this proposal could result in the need for members to attend a special session and estimated the cost at up to $73,370 for FY 2012 and for FY 2014 for mileage and per diem.

Oversight assumes that the requirements of this proposal could be met in a regular legislative session and will not include any cost in this fiscal note.

ASSUMPTION (continued)

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.

BAP officials stated that this proposal would, upon voter approval, eliminate the taxes listed below beginning January 1, 2014. Lost state revenues are to be replaced by a state sales tax of 5.11%. This sales tax would apply to any goods or services, except those used as business inputs, or for an investment purpose. Further, the tax would not apply to intangible personal or used property. Political subdivisions would adjust their sales tax rates so that this proposal is revenue neutral. Taxes eliminated include:

1. Withholding and individual and corporate income taxes.
2. Corporate and bank franchise taxes.
3. All existing state sales and use taxes and existing exemptions.
4. All local earnings taxes authorized by state law.

BAP officials note that this proposal intends for the new sales tax to generate revenues substantially equal to those collected in FY 2012, as described in Section 8. Assuming neutrality is achieved, current projections call for revenues in FY 2012 to be roughly 9% below the levels collected in FY 08, an extraordinary decline which would not have happened except for the recession which began in 2007. This proposal would not allow for state revenues to recover from the unprecedented declines of FY 2009 and FY 2010.

However, there is a high potential that this proposal would not be revenue neutral. Indeed, it is unclear, especially in the short term, what the impact of this proposal may be. Questions exist regarding definitions in the proposal, and how the proposal would be implemented. BAP officials note the bill has several mechanical issues that make it extremely difficult to accurately estimate the impact of the proposal.

* Several phrases remain undefined in the proposal, especially the phrases "used property" and "duly registered qualified household".

* BAP notes that the proposal would allow for the replacement of "revenues lost as a result of the prohibition of taxation of income", but also repeals current sales and use taxes, franchise taxes, and earnings taxes.

ASSUMPTION (continued)

BAP notes that while the intent of the proposal appears to be that the "prebate" is included in the calculation of revenue neutrality, this is not entirely clear. The issue is not addressed in the section which discusses the prebates, nor is it directly addressed in other sections. If the prebates are to be calculated separately, the impact on revenues would be potentially devastating.

The proposal does not directly address motor vehicle sales tax collections, which may be substantially impacted by this proposal. While the sales tax rate on new vehicles would increase, the rate would be zero on used vehicles. This would create a strong incentive for consumers to eschew purchases of new vehicles, which would adversely impact funding for road construction and maintenance. Conversely, significant revenues would be generated from sales taxes on motor fuel.

While there is a mechanism for a single tax rate adjustment, there is no mechanism proposed for making up lost revenues. Further, the language of the proposal may make the mechanics of the adjustment unworkable. The proposal would go into effect January 1, 2013, but the rate adjustment would be effective no later than the beginning of FY 2014, which is July 1, 2013, only six months after its implementation date.

According to the US Census Bureau data, roughly two-thirds of the state's population lives in a county bordering another state. The potential for retail sales leakage is high since it may be easy for consumers in these counties to seek lower tax rates in other states. Further, the growing use of electronic commerce would dampen the growth of taxable consumption in the future.

This proposal would effectively eliminate most of the tax credit incentive programs in the state, as well as the Senior Property Tax Credit (Circuit Breaker). DED, DOR, and other state agencies that administer tax credits can better address the impacts resulting from the loss of those programs.

This proposal is not clear as to who bears the responsibility to replace the earnings taxes lost in St. Louis and Kansas City. It is likely this responsibility would fall to the city governments to adjust their sales tax rates accordingly, but the Missouri Constitution prohibits the state from mandating changes in local spending. The state may be responsible for holding these city governments harmless.

ASSUMPTION (continued)

This proposal could adversely impact the federal tax liability of state-wide taxpayers. Currently, state income taxes paid are deductible from federal taxable income. According to the IRS Statistics of Income, $4.46 billion in state and local income taxes were deducted in tax year 2008. A much smaller amount of sales taxes was also deducted. This increase might have a detrimental impact on the consumption base.

Calculating a Sales Tax Rate

The proposal calls for a 5.11% sales tax rate on a much-expanded sales tax base. However, data that is sufficiently detailed to estimate consumer spending while excluding difficult-to-define concepts such as business inputs, rents, and investment is extremely difficult to access. What little literature is available on this topic suggests this rate is likely too low. For instance, the Show-Me Institute has calculated the rate to be 5.79%. A more recent technical essay available on the Show-me Institute website suggests 10-11% would be a revenue-neutral rate. Estimates from other groups, such as the Institute for Taxation and Economic Policy (ITEP), range higher, to something greater than 11%. Assuming the 5.79% rate is correct, this proposal would be short of revenue neutrality by somewhere between 11-54%.

Estimating the Consumption Base

BAP estimates the consumption base using a methodology suggested by ITEP, starting with national personal consumption as reported in the United States' Bureau of Economic Analysis (BEA) National Income and Product Account (NIPA) tables reported in December 2010, excluding items that are non-taxable under federal law or under the proposal (such as higher education spending). BAP estimated the loss due to explicit avoidance activities, such as internet purchases, traveling across state lines, or the purchase of used goods, as 10%; this figure is entirely arbitrary. Missouri expenditures are assumed to be 1.77% of national expenditures, based on the state's portion of personal income in 2009 as reported by the BEA in December 2010. BAP estimates the consumption base to be $114.97 billion. At the 5.11% rate codified in the proposal, this would generate $5.875 billion in revenues.

BAP estimates the revenues to be replaced in Table 2. Because the proposal would require revenues to be substantially equally to the most recent three-year average, and to compare reasonably to the most recent national consumption data available, FY 2008, FY 2009, and FY 2010 are presented.

ASSUMPTION (continued)

Note that Table 2 includes several revenue sources in addition to General Revenues, in an effort to provide an estimate of the total statewide sales tax rate. Rates would vary across the state, depending on local rates currently in place. Revenues include:

* Franchise, Bank, and Insurance taxes. These taxes are not income taxes per se, but the proposal either specifically excludes these sources or implies their exclusion;
* State sales taxes for Education, Conservation and Parks;
* Local sales taxes;
* Motor Vehicle Sales taxes.
* Earnings Taxes. This analysis assumes the these revenues are replaced with a statewide tax, but a more realistic assumption is that Kansas City and St. Louis are forced to levy a significantly higher rate, while the rate elsewhere is slightly lower, as discussed above. This analysis does not consider the results of the recent voter-approved petition requiring periodic voter approval of the earnings tax in these cities.

The table demonstrates a need to replace over $11.034B in revenues, which would require an aggregate sales tax rate of 9.598%.

<u>Taxes to be Replaced</u>

Category	2008	2009	2010	Three Year Average
Individual Income	$5,118,862,885	$4,771,495,366	$4,326,508,659	$4,738,955,637
Corporate Income and Franchise	$459,242,761	$358,214,151	$287,673,624	$368,376,845
Bank	$13,571,410	$7,301,231	$11,016,515	$10,629,719
Insurance	$255,299,419	$244,499,360	$233,637,079	$244,478,619
General Sales	$1,904,355,881	$1,811,649,787	$1,730,219,035	$1,815,408,234
Dedicated Sales	$979,679,044	$864,976,633	$832,946,324	$869,200,667
Motor Vehicle Sales	$383,469,158	$313,908,626	$327,898,809	$341,758,864
Subtotal	$9,114,482,566	$8,372,045,154	$7,749,900,045	$8,388,808,585
Local Sales	$2,311,806,597	$2,284,307,264	$2,298,017,458	$229,804,373
Estimated KC Earnings	$217,576,000	$202,503,000	$193,795,371	$204,624,790
Estimated SL Earnings	$147,181,000	$143,878,000	$137,691,246	$142,916,749
Local Subtotal	$2,676,563,597	$2,630,688,264	$2,629,504,075	$347,541,539
Revenues to be Replaced				$11,034,393,897
Rate Required				9.598%

ASSUMPTION (continued)

Calculation of the Prebate and the Impact on the Sales Tax Rate

Section 6 of the proposal requires a prebate to be sent to each duly registered qualified household. This term remains undefined. BAP refers to the United States Census, which identifies just over 2.3 million households in the state, of which roughly 1.5 million are "families", while the rest are "non-family" households. BAP assumes the family households would register as a single household, and collect a single prebate based on the appropriate poverty guidelines and prevailing sales tax rate. However, for the non-family households, there would be a significant incentive for each individual in the household to register separately, presuming they are not registered as part of another household elsewhere (for instance, four students sharing an apartment could arguably register as four households.) BAP assumes each member of these households would claim a prebate based on the poverty rate for a single-member household and the prevailing sales tax rate. BAP notes the actual intent of the language may be to provide the prebate only to qualified families, which would reduce the cost of the prebate, but this is not clear from the proposal.

BAP assumes that since the prebate is to be calculated on the "rate of sales tax established under this section", the calculation would include the entire state and local sales tax rate.

Herein lies a significant conundrum, for the prebates represent a substantial amount of additional state spending that would have to replaced with additional sales tax revenues. Thus, the cost of the prebates cannot be determined until the sales tax is known, but the sales tax cannot be determined until the cost of the prebate is known. Therefore, BAP used an iterative process to determine the final sales tax rate.

ASSUMPTION (continued)

Prebate Calculation

Households	Census estimate	2009 Poverty Level	# of Prebates	Prebate cost at 9.598%
Family	1,531,655			
2 person	700,048	$14,570	1	$979
3 person	347,368	$18,310	1	$610
4 person	289,705	$22,050	1	$613
5 person	131,787	$25,790	1	$326
6 person	41,167	$29,530	1	$117
7 or more	21,580	$33,270	1	$69
Non Family	790,586			$0
1 person	662,881	$10,830	1	$689
2 person	106,955	$10,830	2	$222
3 person	13,702	$10,830	3	$43
4 person	5,001	$10,830	4	$21
5 person	1,498	$10,830	5	$8
6 person	455	$10,830	6	$3
7 or more	91	$10,830	7	$1
Base cost				$3,701

ASSUMPTION (continued)

BAP used the initial calculation of $3.7 billion in prebate cost (above) to estimate an amount of $14.7 billion in replacement revenue required for the taxes eliminated by the proposal plus the prebate, and divided this by the spending base estimated earlier to calculate a base replacement sales tax rate of 12.816%. BAP then made a series of computations to estimate the additional prebate needed to replace the sales tax cost to the eligible households. The BAP estimate of this rate was 14.40%.

Officials from the **Department of Conservation** (MDC) stated that this proposal would eliminate the Conservation Sales Tax and replace it with revenues substantially equal to the amount of revenue that would have been generated averaged over the three immediately preceding fiscal years.

MDC officials assume this would have an unknown impact on MDC funds since the department's revenue would be calculated on a different basis than is the current sales tax.

Officials from the **Department of Elementary and Secondary Education** assume the proposal would replace income tax with a sales and use tax. The language states that revenues would not be adversely affected. Based on this assumption, the state school foundation formula would not be negatively impacted fiscally. However, the impact of an increased sales tax on purchases within the state is unknown. We defer to the Department of Revenue in that regard.

Officials from the **Department of Higher Education** assume this proposal would have an impact on their organization and every other agency that is funded in whole or in part by general revenue but were not able to provide an estimate of the impact.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would replace individual and corporate income taxes, corporation franchise and bank franchise taxes, and all existing state sales and use tax with a new sales tax rate.

DNR officials noted that the DNR Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. It appears that the intent of the proposal is to allow for the Conservation Sales Tax and the Soil and Parks Sales Tax to be recalculated to produce substantially the same amount of revenue. If that is the intent, then for purposes of this fiscal note, DNR would not anticipate a direct fiscal impact from this provision.

ASSUMPTION (continued)

This proposal would also appear to eliminate all sales tax exemptions. Currently, the State of Missouri is a tax-exempt entity. If DNR is required as a result of this proposal to pay the newly created 5.11% sales tax on the purchase of all goods and services, then there would be a significant unknown fiscal impact to the department. Each state agency's operating budget would increase substantially. DNR assumes the Office of Administration would be better able to estimate the amount of fiscal impact from this provision for each department.

Officials from the **Department of Revenue** (DOR) assume this proposal would eliminate all Missouri income taxes as of January 1, 2013, and any lost revenue would be replaced with a tax on the consumption and use of taxable property and services, as defined. No tax would be imposed on any taxable property or service purchased for a business purpose or for an investment purpose, as defined.

The tax would be levied in the amount of five and eleven one-hundredths percent, and the General Assembly could enact one rate adjustment to be effective no later than the beginning of fiscal year 2014 if the revenue lost exceeds the revenue received from the tax levied.

DOR would determine a method for providing sales tax rebates to each qualified household in this state, and the rebate would be distributed beginning January 1, 2013. DOR would create rules to implement these provisions.

DOR and ITSD-DOR would make programming changes to the Missouri Individual Income Tax System (MINITS), the Corporation Income Tax System (COINS), the Corporate and Franchise (Tax) Entry System (CAFÉ), the Corporate Electronic Filing Specifications (MeFile), the Case Audit Management System (CAMS), the Sales Tax Processing system (MITS), and the Withholding Tax System (DWIT).

The DOR estimate of FTE impact for the processing area in fiscal year 2013 is based on a nine-month cycle. DOR would have personnel fully trained as of January 1, 2013 and would need to hire and begin training temporary staff in October 2012. For fiscal year 2012, the Department assumes no additional full-time employees would be needed.

ASSUMPTION (continued)

DOR officials' assumptions for Personal Tax:

* For FY 2012 and FY 2013 Personal Tax would retain 100% of existing staff to continue the processing and collection duties of individual income tax.

* For FY 14 - Personal Tax would retain 100% of existing staff for the first six months to continue the processing and collection duties of individual income tax (July 2013 through December 2013). For the last six months of FY 14 (January 2014 - June 2014), Personal Tax would retain 81% of existing staff (108 FTE out of 134 FTE) for processing and collection duties of individual income tax. Personal Tax expects late filing and amended returns for Fiduciary Income Tax and Property Tax Credits.

* Personal Tax would move employees to replace the temporary employees hired in business tax on a one-for-one basis.

DOR officials' assumptions for Collections and Tax Assistance (CATA):

CATA would see an impact to the registration area because including all services as a taxable product would greatly expand the types of businesses that would need to register for sales/use tax. Presuming the number of businesses required to register for sales tax doubles, CATA could see the following impact:

* FY 2012 - No impact

* FY 2013 - Based on the presumption of doubling the number of businesses, for registration, contacts, and collection efforts - CATA would need an additional 88 temporary employees (CATA's FY 2009 sales use tax and registration FTE impact was 44). Training would begin in October of 2012.

* FY14 - CATA could reduce 15% of the temporary employees due to a decline in income, withholding and corporate tax accounts.

ASSUMPTION (continued)

DOR officials' assumptions for Sales, Excise and Business Tax:

The following impact is based upon the assumption that the workload for sales/use tax would double because of the additional filers. Based upon FY 2009 program costs, which include processing, correspondence, error correction, refunds, etc., business tax would need an additional 97 temporary employees for sales/use tax. The Department assumes that although the new sales tax would go into effect January 1, 2013, current staff responsible for corporate tax, withholding tax and personal tax would not be available for reallocation until the last half of FY 2014, and even then, it may be only a fraction of the employees. Therefore, temporary staff would be needed until the current staff can be reallocated.

* FY 2012 - No impact

* FY 2013 - Business tax would need 97 temporary employees and would receive no benefits. Training would begin in October of 2012. These employees would be temporary and receive no benefits.

* FY 2014 - For the first half of the year business tax would need the 97 temporary employees and for the second half business tax would need 73 temporary employees. The reduction for the second half of FY 2014 is based on the assumption that 25% of the permanent staff would now be available for reallocation.

If the number of new filers should more than double, the amount of additional resources would increase proportionately.

ASSUMPTION (continued)

DOR officials' assumptions for Corporate/Withholding Tax:

* For FY 2012 and FY 2013 - Corporate/Withholding tax would retain 100% of existing staff to continue the processing and collection duties of withholding and corporate tax.

* For FY 14 - Corporate/Withholding tax would retain 46% of existing staff in the Withholding Tax Section (6 out of 13 FTE) and 79% of existing staff in the Corporate Tax Section (19 out of 24 FTE) to continue the processing and collection duties of withholding and corporate tax. The remaining FTE would be moved to the Sales Tax area to replace temporary employees hired in the business tax area on a one-to-one basis.

DOR officials' assumptions for Field Compliance:

In fiscal year 2010, Field Compliance conducted 2,350 sales and use tax audits. In order to conduct approximately 4,700 sales and use tax audits, it would be necessary to double our audit enforcement staff. This would require additional instate and out of state personnel. Currently, Field Compliance has 160 assigned positions with an approximate payroll of $7.4 million. The addition of 160 new positions would increase Field Compliance to 320 positions and a payroll of approximately $14 million.

Each additional employee would have start up costs which include a new computer, file cabinet, desk, chair, side chair, calculator, and on-going supplies. The approximate cost for 160 new employees would be $454,080. The travel and operating budget could potentially double by moving the budget from $400,000 to potentially $800,000. This would bring the approximate Expense and Equipment cost to approximately $1.2 million.

Each instate and out of state facility would need to be moved to accommodate the increase in personnel. The estimated cost for this would double fiscal year 2010's amount of $450,000 to $900,000.

ASSUMPTION (continued)

DOR officials' assumptions for Legal Services:

- For FY 2012 - No impact

- For FY 2013 - Based on the presumption of doubling the number of businesses licensed to collect and remit sales tax, there would be a substantial increase in the caseload. The income tax cases would decrease over time, but they would continue for the next few years. Legal services would need to add four additional attorneys and two support staff.

DOR included a cost estimate including 166 additional employees and the related equipment and expense totaling $13,585,389 for FY 2013 and $11,914,295 for FY 2014.

Oversight assumes the Field Compliance Bureau would be able to use some of the existing staff that currently conducts income tax or franchise tax audits to conduct new sales and use tax audits. Also, with the start date of the new sales tax being January 1, 2012, Oversight assumes the sales and use tax audits would not be conducted prior to fiscal year 2014. Oversight also assumes that any additional caseload for Legal Services would not be expected until after FY 2014. Therefore, in the Field Compliance Bureau and Legal Services, Oversight assumes the fiscal impact of the additional FTE would be outside the scope of this fiscal note.

Oversight will also assume DOR will pay the employer FICA tax only on the temporary employees.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions 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 estimate of equipment and expenditures in accordance with OA budget guidelines.

Oversight assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly $5,000 per employee.

ASSUMPTION (continued)

Oversight will range the fiscal impact to the Department of Revenue from $0 (resolution is not passed by public vote) to the adjusted amount Oversight calculated based on the DOR estimate. Oversight also assumes the proposal would be implemented in such a way that sales tax revenues to the state as well as local political subdivisions would be equivalent to the lost revenue from income tax, local earning tax, existing sales tax, franchise tax, and bank franchise tax.

IT cost estimate

DOR provided an estimate of the IT cost to implement this proposal of $231,504 based on 8,736 hours of programming to make changes to DOR systems.

Officials from the **State Tax Commission** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Transportation** (MODOT) assume:

* The proposed legislation would remove all sales and use taxes and replaces them with a sales tax on NEW products and services. Our assumption is this proposal would remove the motor vehicle sales and use tax we currently receive from USED cars, which is approximately 50% of our motor vehicle sales and use tax revenue.

* The proposed legislation would replace the existing sales tax rate with a higher 5.11% rate on new products and services, thus a 0.885% rate increase in motor vehicle sales and use tax on the sale of NEW vehicles.

* The proposed legislation would remove all current exemptions of sales tax.

  Currently there is a sales tax exemption on motor fuel, which is state revenue derived from highway users. Our assumption is that MoDOT/locals would now receive the sales tax charged on motor fuel.

  Currently there is a sales tax exemption on commercial motor vehicles, which is state revenue derived from highway users. Our assumption is that MoDOT would now receive the sales tax revenue charged on commercial motor vehicles but it is unknown what that positive impact might be.

ASSUMPTION (continued)

* Currently there is a cap on the sales tax received on the sale of jet fuel at $10 million. Due to the increased sales tax rate, it is possible that in a year when the Aviation Trust Fund would not have normally received the $10 million, they could receive extra revenue up to the cap.

* MoDOT would now be responsible for all sales tax charged for expenses and equipment currently exempt as well as materials and service costs charged by contractors who complete highway work. However, it is unknown how much of this negative impact might be offset by the fact that contractors wouldn't have to pay income tax. They may pass this savings on to MoDOT in the form of lower bids.

MODOT officials provided an overall estimate of the impact to MODOT funds.

There was no impact expected for FY 2012.

Fund	FY 2013	FY 2014
Road	$148.9 million to Unknown	$305.8 million to Unknown
Road Bond	($23.1 million)	($46.0 million)
Transportation	($0.5 million)	($0.9 million)
Aviation Trust	$0 to Unknown	$0 to Unknown
Transportation Highway Safety	($0.1 million)	($0.2 million)
Highway and Transportation Department	($1.3 million)	($2.5 million)
Total	$123.9 million to Unknown	$256.2 million to Unknown
Cities	$35.3 million to Unknown	$71.4 million to Unknown
Counties	$28.9 million to Unknown	$58.4 million to Unknown

<u>ASSUMPTION</u> (continued)

MODOT officials assume this proposal would likely have a positive impact on small businesses because it repeals the corporate income tax and the corporate franchise tax. Also, the JR includes an exemption from the new state sales tax for any property or service purchased for a business purpose in a trade or business, including agriculture or purchased from an investment purpose and held exclusively for an investment purpose.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** assume there would be no revenue impact associated with this proposal.

Officials from **Cass County** assume there would be some administrative cost involved in implementing this change in tax policy and indicated a range of fiscal impact from $1 to unknown.

Oversight assumes that any impact to local governments from this proposal would be minimal and could be absorbed with existing resources.

Officials from **St. Louis County** and the **St. Louis Public School District** assume this proposal would have no fiscal impact on their organizations.

Officials from the **City of Kansas City** assume this proposal could have a negative fiscal impact to their organization because of the substitution of a sales tax for their earnings tax. City officials noted that their earnings tax generated approximately $189 million per year.

Oversight assume this proposal would be implemented in a revenue neutral manner.

Officials from the **City of West Plains** assume this proposal would have a large but unknown amount of negative fiscal impact, particularly on cities which adjoin other states.

Officials from the **Fair Grove School District** assume this proposal could be detrimental to te public schools that depend on state income tax.

ASSUMPTION (continued)

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2012. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in February 2012 (FY 2012). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2012.

To estimate the expense the state would incur for reimbursing local political subdivisions for a special election, Oversight requested expense estimates from all election authorities for an election. Eighty-six out of the one hundred fifteen election authorities responded to Oversight's request. From these respondents; the total election expense that would have to be reimbursed by the state government is over $7 million. Therefore, Oversight will reflect a potential cost borne by the state in FY 2012 of over $7 million for reimbursement to the local political subdivisions. Oversight assumes the Governor could call for a special election to be held prior to February 2012 regarding this joint resolution; however, if a special election is not called, the subject will be voted on at the general election in November, 2012.

Oversight assumes this proposal would not change Total State Revenues.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Salaries - 185 temporary employees	$0	$0 or ($1,214,525)	$0 or ($1,226,670)
FICA for temporary employees	$0	$0 or ($92,911)	$0 or ($93,840)
Expense and equipment	$0	$0 or ($1,140,967)	$0 or ($215,632)
Programming Changes	$0 or ($231,504)	$0	$0
Total DOR cost	$0 or ($231,504)	$0 or ($2,448,403)	$0 or ($1,536,142)
Expense - reimbursement of local political subdivisions for special election costs	$0 or (More than $7,000,000)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0 or (More than $7,231,504)**	**$0 or ($2,448,403)**	**$0 or ($1,536,142**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
Income - cost reimbursement from the State for special election	$0 or More than $7,000,000	$0	$0
Expense - cost for special election	$0 or (More than $7,000,000)	$0	$0
ESTIMATED NET EFFECT TO LOCAL GOVERNMENTS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would propose a constitutional amendment replacing all current taxes on income with a sales and use 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 Governor
Office of the Secretary of State
Office of the Attorney General
Office of the State Treasurer
Missouri Senate
Missouri House of Representatives
Office of Administration
    Division of Budget and Planning
Department of Conservation
Department of Elementary and Secondary Education
Department of Higher Education
Department of Natural Resources
Department of Revenue
State Tax Commission
Department of Transportation
University of Missouri
    Economic and Policy Analysis Research Center
Cass County
St. Louis County
City of St. Louis
City of Kansas City
City of West Plains
Fair Grove School District
St. Louis Public School District

Mickey Wilson

Mickey Wilson, CPA
Director
April 20, 2011