COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0835-05
Bill No.: HCS for SCS for SB 117
Subject: Hospitals; Taxation and Revenue - Property; Taxation and Revenue - Sales and Use
Type: Original
Date: April 26, 2011

Bill Summary: This proposal modifies provisions relating to collection of state and local sales and use taxes, with a penalty provision and an emergency clause for certain sections.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue *	Unknown greater than $100,000 to (Unknown greater than $237,827)	Unknown to (Unknown greater than $136,124)	Unknown greater than $40,729 to (Unknown greater than $237,208)
Total Estimated Net Effect on General Revenue Fund *	**Unknown greater than $100,000 to (Unknown greater than $237,827)**	**Unknown to (Unknown greater than $136,124)**	**Unknown greater than $40,729 to (Unknown greater than $237,208)**

*** Note: The Department of Revenue has estimated that the amnesty program would result in the collection of approximately $74 million in FY 2012 of which approximately $50 million is currently identified and the balance of approximately $24 million would be considered additional revenue.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 30 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Blind Pension Fund	$0	(Unknown)	(Unknown)
Conservation Commission	Unknown to (Unknown)	Unknown	Unknown to (Unknown less than $100,000)
Parks, and Soil and Water	Unknown to (Unknown)	Unknown	Unknown to (Unknown less than $100,000)
School District Trust	Unknown	Unknown	Unknown to (Unknown less than $100,000)
Various state funds	Unknown	Unknown	Unknown
Road Fund	($2,500,000)	($2,500,000)	($2,500,000)
Fire Sprinkler Contractor Registration Fund	$108,464	($67,735)	$63,001
Total Estimated Net Effect on Other State Funds	**Unknown greater than $108,464 to (Unknown greater than $2,500,000)**	**Unknown to (Unknown greater than $2,567,735)**	**Unknown greater than $63,001 to (Unknown greater than $2,800,000)**

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
General Revenue	2	2	2
Total Estimated Net Effect on FTE	**2**	**2**	**2**

☐ 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	**Unknown to (Unknown greater than $300,000)**	**Unknown to (Unknown greater than $300,000)**	**Unknown to (Unknown greater than $400,000)**

FISCAL ANALYSIS

ASSUMPTION

Bill as a Whole

Officials from the **Office of the State Auditor**, **Department of Insurance**, **Financial Institutions and Professional Registration**, **Office of Administration - Division of Accounting**, **Department of Public Safety - Division of Fire Safety** and the **State Treasurer's Office** assume that there is no fiscal impact from this proposal.

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

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

Officials from the **Office of Secretary of State** (SOS) assume authority is given to the Department of Revenue, Attorney General, Department of Economic Development, Department of Elementary and Secondary Education and the Department of Public Safety to promulgate rules. These rules will be printed by our division in the Missouri Register and the Code of State Regulations. Based on experience with other departments, the rules, regulations, and forms issued by the Department of Revenue, Attorney General, Department of Economic Development, Department of Elementary and Secondary Education and the Department of Public Safety could require as many as 74 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. These costs are estimated. The estimated cost of a page in the Missouri Register is $23.00. The estimated cost of a page in the Code of State Regulations is $27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, or withdrawn.

Oversight assumes the SOS could absorb the costs related to this proposal. If multiple bills pass, SOS could request funding through the appropriation process.

Officials from the **Office of the Governor** state there should be no added cost to the Governor's Office as a result of this bill.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) officials provided an estimate of the IT cost to implement this proposal of $265,212 based on10,008 FTE hours of programming to make changes to DOR programs.

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Officials from the **Department of Conservation** (MDC) assume an unknown negative fiscal impact on the Department. Conservation Sales Tax funds are derived pursuant to Article IV Section 43 (a) of the Missouri Constitution, therefore a portion of sales tax collected through the amnesty program could be deposited to the Conservation Fund. The sales tax exempt pieces of the legislation could negatively impact the Conservation Fund. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal. Department of Conservation could refer outstanding debt to the Department of Revenue for collection. This would be minimal.

Sections 32.028, 32.058, 32.087, 32.088, 32.383, 32.410, 32.420, 32.430, 32.440, 32.450, 32.460, 105.716, 140.910, 144.083, 168.071

Tax Amnesty and Department of Revenue Collections

BAP officials stated that the proposal would create an amnesty from all accrued penalties and interest on unpaid taxes, if taxes are appropriately filed during a period from August 1, 2011, to October 30, 2011. This proposal appears to be similar to the amnesty program in FY 2003. BAP estimates that $75 million in revenues was received under that program, including $50 million already identified from Department of Revenue (DOR) investigations completed or in process. BAP estimates $25 million of these revenues were "new" revenues from previously unidentified sources. Of those figures, approximately 70% would pertain to General Revenue.

The proposal would increase general and total state revenue by improving tax collection procedures on delinquent taxes and/or debt owed to the state. It would also allow the DOR to retain 1% of the amount of any local sales or use tax collected to cover their costs. This proposal would also give the DOR authority to collect debt on behalf of other state agencies. All taxes in this proposal are existing, thus there would be no 18e impact.

BAP officials deferred to DOR for estimates of the costs and increased revenue collections resulting from operational efficiencies.

ASSUMPTION (continued)

Officials from the **Department of Agriculture** (AGR) assume this proposal would result in a loss of revenue to their organization. AGR officials stated that in situations in which less than the total amount is collected back, the payment would be applied proportionally to collection costs and the underlying debt. In delinquent loan situations, this is typically the case, so based on the past three years average:

$63,609 collections for which collection assistance would be requested.
($63,609 + ((10% x $63,609)=$6,361))= $69, 970 = amount requested plus 10% collection fee added according to this proposal.

$13,858 collected
So, proportionally applying payment to the collection fee and MASBDA:
($69,970/$63,609)= 90.9%, and
($69,970/$6,361)=9.1%; therefore
($6,361*9.1%)=$1,261 reduced revenue to MASBDA because of the collection fee.

Oversight assumes that delinquent accounts would be referred to the Department of Revenue after the Department of Agriculture had exhausted their internal collection process. Accordingly, any amounts collected by DOR on behalf of AGR would be greater than the collections on those accounts without DOR assistance. For fiscal note purposes, Oversight will not indicate a negative impact for AGR.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal will result in additional duties; however, current staff should be able to perform those duties without significant cost.

DESE officials noted that to the extent fine revenues exceed 2004-2005 collections, any increase in this money distributed to school districts would increase the deduction in the Foundation Formula the following year. Therefore the affected districts would see an equal decrease in the amount of funding received through the formula the following year; unless the affected districts are hold-harmless, in which case the districts would not see a decrease in the amount of funding received through the formula. Any increase in fine money distributed to the hold-harmless districts would simply be additional money. An increase in the deduction, all other factors remaining constant, would reduce the cost to the state of funding the formula.

Finally, DESE officials noted that tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

ASSUMPTION (continued)

Officials form the **Department of Health and Senior Services** (DHSS) assumes for fiscal notes purposes that the phrase “any state license required for conducting any business” includes providers the DHSS, Division of Regulation and Licensure (DRL) is responsible for licensing including hospitals, ambulatory surgical centers, home health agencies, hospices, child care facilities, ambulance services, all levels of long-term care facilities, and adult day care facilities. DHSS further assumes that this same phrase does not apply to licenses issued to individuals (nursing home administrators or emergency medical technicians) or to registrations of handlers of controlled substances. This section would require licensed providers to submit a “no tax due statement” to DRL with their applications for initial and renewal licenses.

DHSS assumes for fiscal note purposes that the director of the DOR would enter into an agreement with DHSS by which DHSS would provide DOR with the name and Missouri tax identification number (TIN) within one month of the date any application is filed or one month prior to any anticipated renewal of a license. DRL currently does not request the taxpayer identification number at any point in its various licensure application processes.

DHSS, DRL would need to assess which of the two options above is the most effective and efficient method to ensure no taxes are due to the State of Missouri from a licensure applicant. Both sections proposed contain task that currently are not part of any application processes and are not required by rule. State regulations would need to be modified to reflect additional information submission requirements. Forms and licensure processing procedures would need to be modified to ensure appropriate review of the documentation and follow-up as needed. Licensure tracking databases would possibly need to be modified to capture additional data. The time required to review applications/renewals would increase and a process would need to be develop for receiving the no tax due/tax due information back from the DOR, and the appropriate follow-up with applicants. Section 32.088.2 would also require a new process for submitting the required information to DOR to be developed and implemented

Section 32.088.2 also indicates that if an entity is delinquent or fails to file, its license shall be suspended within 90 days notice, unless they have remedied the situation or entered into a payment arrangement with DOR. This could result in increased activities related to licensure suspension administered by DHSS, DRL. Licensure suspension could also result in the need for relocation of long-term care residents which would also result in an increased need for staff time.

DRL processed approximately 8,192 applications in 2010.

ASSUMPTION (continued)

The total fiscal impact to DRL for staff time to implement the proposed statutory changes, including assessing the appropriate option to implement, amendments to rules, changes in forms, developing and implementing process changes, database changes, collecting and reporting information, increased suspension/denial activities is considered unknown, greater than $100,000 annually.

Oversight assumes that the additional work could be accomplished with existing staff. If unanticipated additional costs are incurred, resources could be requested through the budget process.

Officials from the **Department of Natural Resources** (DNR) this proposal would authorize additional collection procedures for money owed to the state, and note that the proposal includes provision for a tax amnesty program. The amount of fiscal impact in unknown.

The Department's 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 amount of impact would be unknown. The state revenue could increase by the taxes, fees and debts collected by the DOR.

Officials from the **Department of Transportation** deferred to the Department of Revenue for an estimate of the fiscal impact on this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal could have a positive impact on general and total state revenues. DOR officials provided this estimate, in millions of dollars, of collections for the various sections of this legislation.

ASSUMPTION (continued)

Sections	Subject	FY12 Net GR	FY12 Net Total	FY13 Net GR	FY13 Net Total	FY14 Net GR	FY14 Net Total
32.028, 32.400, 32.410, 32.420, 32.430, 32.440, 32.450, 32.460	Centralized State Debt Collections	$0.75	$1.00	$4.00	$6.00	$5.00	$7.50
32.087	1% collection fee	$0.35	$0.35	$0.35	$0.35	$0.35	$0.35
32.38	Tax amnesty	$20.00	$24.00	$0.00	$0.00	$0.00	$0.00
32.088, 105.716, 144.083, 140.910 (admin garnishments), 168.071 (teacher certificates)	Enhanced No Tax Due and Garnishment	$6.00	$6.00	$20.63	$21.50	$20.63	$21.50

The department estimates FY 2012 increases to general revenue of approximately $27 million for the collections provisions provided above, FY 2013 increases to general revenue of approximately $25 million, FY 2014 increases to general revenue of approximately $26 million and combined increases to total state revenue of approximately $90 million through FY 2014.

DOR officials stated that collections under previous tax amnesty programs were approximately $74 million in FY 2002 and $42 million in FY 2003.

For Section 32.383 DOR officials assume the proposal could have a positive impact on Total State Revenue in FY 2012 of up to $74 million. However, DOR officials also estimated that up to $50 million of the $74 million which would be received through amnesty would already be identified as outstanding liabilities. DOR assumes that an overwhelming majority of the $50 million, plus interest and penalties, could be collected without amnesty. Therefore, the net total state revenue is estimated at $24 million.

In Fiscal Year 2010, DOR mailed approximately 380,000 notices by certified mail at an approximate cost of $1.25 million. These notices include, but are not limited to, the Individual Income Tax Notice of Deficiency, Individual Income Tax Final Decision, the Corporation Income Tax Notice of Deficiency, Corporation Income Tax Final Decision, the Withholding Tax

ASSUMPTION (continued)

Notice of Deficiency, Withholding Tax Final Decision, Sales and Use Tax Assessments, and the Assessment of Unpaid Sales Tax and Motor Vehicle Penalty Fee. If the certified mail requirement was removed for each of these notices, DOR would save approximately $2.80 per mail piece, for a total postage savings of approximately $1 million. In addition, DOR paid approximately $.021 per certified mail envelopes and $.017 per non certified mail envelopes. Therefore, DOR could save approximately $1,500 dollars in envelope costs.

DOR officials provided an estimate of the cost to implement the proposal.

Projected Amnesty Program Costs

Based on 2011 estimates, there are approximately 490,000 known taxpayers eligible for amnesty.

DOR estimates the programs costs would be as follows.

Postage, envelopes and printing - 490,000 x $.505 = $247,450

The Taxation Division would incur costs for the following:

*	Overtime to review correspondence	$100,000
*	Overtime to review errors on returns	$73,000
*	Existing staff and temporary employees to key returns and process payments	$145,000
*	Customer contacts	$30,000
	Total	$348,000

DOR also recommends an advertising budget of at least $400,000. Advertising the amnesty should enhance participation in the program and help ensure that individuals and businesses not already in contact with the department participate in the program.

In the alternative, the state could contract with a private vendor to administer the amnesty, like several other states, that have achieved very good results. Contracting with a vendor would avoid the direct costs to the department, noted above. Vendor payment could be based on the percentage of debts collected.

ASSUMPTION (continued)
Administrative costs

DOR officials assume that Personal Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 2,400 accounts to be reviewed, tracked, and monitored. DOR officials also assume that implementing the proposal would require a systems upgrade of $1.5 million, professional services of $561,000, $400,000 in advertising, and additional postage of $86,250.

DOR officials submitted a cost estimate to implement the proposal including one additional employee with related fringe benefits, equipment, and expense, amnesty program costs of $647,450, system upgrade of $1,500,000, professional services of $561,000, and additional postage of $86,250 totaling $3,363,747 for FY 2012, $40,083 for FY 2013, and $40,497 for FY 2014.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional position 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 adjusted the DOR estimate of equipment and expense cost in accordance with OA budget guidelines, and Oversight assumes that one additional employee could be accommodated in existing office space.

Oversight notes that the Department of Revenue has provided an estimate of potential collections in FY 2012 for the delinquent tax amnesty program of approximately $74 million. Of this amount, approximately $50 million has been identified and is in the DOR collection process, and the balance of approximately $24 million would be identified and collected through the amnesty program. Oversight is not able to determine the reasonableness of those estimates since we do not have access to comparable information for similar programs, nor are we able to review any of the supporting documentation for those estimates since the information is confidential. Accordingly, Oversight will indicate unknown additional revenues for the state General Revenue Fund in excess of $100,000, in addition to the recovery of program costs, for FY 2012, FY 2013, and FY 2014.

Oversight notes that this proposal would require DOR to deposit all collections from the amnesty program, except for those which are earmarked by the Missouri Constitution, into the state General Revenue Fund. Accordingly, Oversight will indicate an unknown positive fiscal impact from this proposal in FY 2012 for the Conservation Commission Fund and the Parks and Soils Sales Tax Funds. Other state funds and local governments which would receive additional tax collections under existing provisions would not have a fiscal impact from the amnesty program.

ASSUMPTION (continued)

Oversight will indicate unknown costs in excess of $100,000 in FY 2012 for the Department of Revenue to administer the amnesty program and for the consulting, system upgrade, and additional postage.

Oversight also notes that this proposal would authorize DOR to waive penalties, interest, and additions to tax which would be applied and collected under existing provisions regarding delinquent tax administration. Oversight assumes the additional taxes collected would exceed the penalties, interest and additional taxes which would have been collected, and for fiscal note purposes only will indicate an unknown revenue reduction in the General Revenue Fund and other state funds.

Section 32.385 - Reciprocal Collection Agreement with the federal government.

This provision would authorize the **Department of Revenue** and the Office of Administration to enter into a reciprocal agreement with the federal government. Under this agreement, the state would offset from state tax refunds or from payments due to vendors and contractors debt owed to the federal government. The federal government would offset from federal payments otherwise due to vendors, contractors, and taxpayers debt owed to the state.

In response to a previous version of this provision, DOR officials assumed the provision would result in additional collections of delinquent taxes and other state debt. DOR officials stated that a data match with IRS indicated first year collections of approximately $7 million. In addition, DOR officials stated that other states which had initiated IRS match procedures experienced reduced collections after the first year.

Finally, DOR officials stated that IRS charges $17 per match, and there would be costs of approximately $131,000 the first year for postage and mailing costs, and the IRS fees. DOR officials said there could also be costs to the Office of Administration to extend the IRS match process to vendor and contractor payments.

Oversight assumes these provisions would result in additional collections of state debts but is not able to estimate the amounts which would be collected. Oversight will indicate unknown additional revenues to the General Revenue Fund, to those state funds which receive sales tax revenues, to various other state funds, and to local governments. Oversight will also include unknown collection costs for the IRS match contract, including postage, forms, printing, IRS fees, and programming costs. For fiscal note purposes, Oversight will include those costs in the state General Revenue Fund.

ASSUMPTION (continued)

Section 66.620 - St. Louis County Sales Tax
Officials from the **County of St. Louis** estimate a loss to Pool sharing municipalities in the County would be approximately $5 million annually. The loss to St. Louis County Government would be $6- $7 million annually.

Oversight assumes this proposal would have no fiscal impact to the state and no net fiscal impact to local governments. Oversight assumes this proposal would allow a specific city to change the method used for the distribution of countywide sales taxes. Oversight will indicate no fiscal impact for this proposal.

Sections 67.2050 & 144.810 - Sales tax exemption for data storage centers and server farm facilities

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume the proposed legislation would not result in additional costs or savings to their organization.

BAP officials also noted that the proposal would define qualifying data center projects. A new facility could not replace an existing facility, and would require the investment of $5 million over 36 months, and an expanding facility would require the investment of $1 million within 12 months. These firms may fall under NAICS codes 518210, 519130, or 517110. Officials at DED report there were 815 Missouri firms in these codes in the autumn of 2010.

This proposal would provide a sales tax exemption for certain inputs of production, utilities including internet services, and construction materials used by new data storage centers. This proposal would not impact current General and Total State Revenues, but future revenues may be forgone.

This proposal would also provide a sales tax exemption for certain inputs of production, utilities, and construction materials used by expanding data storage centers, to the extent the amount of new inputs exceed current input levels. This proposal would not impact current General and Total State Revenues, but future revenues may be forgone.

This program could encourage other economic activity, but BAP does not have data to estimate the induced revenues. BAP officials noted that the Department of Economic Development may have such an estimate.

ASSUMPTION (continued)

Officials from the **Department of Economic Development** (DED) assume this proposal would create a state and local sales and use tax exemption for data storage centers. The data storage centers that seek a tax exemption would be required to submit a project plan to the DED, and DED would be responsible for certifying the projects in conjunction with the Department of Revenue (DOR). The proposed legislation would also require random audits to ensure compliance with the intent the data storage centers and server farm facilities indicated in their project plan.

DED is unable to determine the exact impact the proposed legislation would have on total state revenue and therefore would anticipate an unknown impact to total state revenues over $100,000.

DED would be responsible for determining eligibility for the exemption and also for the compliance and auditing functions required by the proposed legislation, and anticipates the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the project plan applications to make sure they meet the criteria of the program and conducting random audits to ensure compliance with the program.

DED submitted a cost estimate for the proposal including salaries, benefits, equipment, and expense totaling $60,576 for FY 2012, $65,674 for FY 2013, and $66,406 for FY 2014.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DED could absorb the additional workload with existing resources. If this proposal created an unanticipated increase in the DED workload, or if multiple proposals were implemented which created a substantial increase in the DED workload, resources could be requested through the budget process.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume that other than the potential impact on the revenue stream of state and local governments which our department has no means to calculate, this proposal would not impact DESE or local schools.

Officials from the **Department of Natural Resources** (DNR) assumed a previous version of this proposal would provide state and local sales and use tax exemptions for all machinery, equipment, computers, electrical energy, gas, water and other utilities including telecommunication services used in new data storage centers. It would also provide a state and local sales and use tax exemption for purchases of tangible personal property for the construction, repair, or remodeling of a new data storage center.

ASSUMPTION (continued)

The proposal would also create a state and local sales and use tax exemption for existing data storage centers for all machinery, equipment, computers, electrical energy, gas, water and other utilities including telecommunication service. The exemption would only apply to the increase in expenditures for utilities over the previous year's expenditures. The exemptions for tangible property would be available only on the increase in expenditures over the average of the previous three years expenditures.

In order to receive the sales tax exemption, an application would have to be made to the Department of Economic Development for certification.

The Departments of Economic Development and Revenue would be authorized to conduct random audits to ensure compliance with the requirements for state and local sales and use tax exemptions authorized under this proposal.

Adding additional sales tax exemptions would decrease the amount of funding available in the Parks & Soils Sales Tax Funds. Exempting sales tax for the purposes described in this proposal would decrease the amount of funding available in the Parks & Soils Sales Tax Funds for long term operation of state parks and historic sites and assistance to agricultural landowners through voluntary programs.

DNR officials indicated an unknown loss of revenue to the state General Revenue Fund and to Parks, and Soils Sales Tax Funds.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a sales and use tax exemption for data center operations. The proposal would reduce state revenues.

Beginning August 28, 2011, the following would be exempt from sales and use tax:

* all electrical energy, gas, water and other utilities including telecommunication services used in a new data storage center
* All machinery, equipment and computers used in any new data storage center, and
* All sales at retail of tangible personal property and materials for constructing, repairing, or remodeling any new data storage center.

Entities would be required to submit a plan to the Department of Economic Development (DED) to determine eligibility. DED would certify the project to the DOR, and would issue an exemption certificate to the taxpayer. Beginning August 28, 2011 an expanding data storage center could be exempt from sales and use tax with the same criteria as with a new data storage center.

ASSUMPTION (continued)

DED and DOR would conduct random audits and create rules to carry out the provisions of this legislation. DOR and ITSD-DOR would make programming changes to the sales tax processing system (MITS).

DOR assumes that Collections & Tax Assistance (CATA) would have additional contacts due to this exemption, and would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 24,000 additional contacts annually to the registration section, with CARES equipment and agent license, and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 additional contacts annually to the tax assistance offices, with CARES equipment and agent license.

DOR also assumes that Sales Tax would require one additional FTE Revenue Processing Technician I (Range 10, Step L) for completion of amended returns and processing refunds

DOR officials submitted an estimate of the cost to implement this proposal including three additional FTE and the related fringe benefits, equipment, and expense totaling $122,529 for FY 2012, $121,284 for FY 2013, and $122,558 for FY 2014.

Oversight assumes there would be a limited number of entities eligible for this sales and use tax exemption and that DOR could absorb the additional workload with existing resources. If this proposal created a significant unanticipated increase in the DOR workload, or if multiple such proposals were implemented, resources could be requested through the budget process.

In response to a previous version of this proposal, officials from **Boone County** stated that it is impossible to determine the long-term loss of local tax revenues that would stem from the contemplated on-going exemptions for utilities, machinery and equipment, and personal property purchases without examining the details of a specific project, but the loss of local revenue would be substantial. The on-going exemptions for local tax revenues contemplated in the bill would amount to a substantial loss to the schools, libraries, fire districts, city and county governments.

Officials from the **City of Kansas City**, **St. Charles County**, and the **Parkway School District** stated that a previous version of this proposal could result in a reduction of revenue for their organizations but could not provide an estimate of that anticipated loss.

ASSUMPTION (continued)

Oversight notes that these provisions would require a minimum $5 million investment in a new facility within thirty-six months, or a minimum $1 million investment in an expanding facility within twelve months. The proposed project would require approval by the Department of Economic Development (DED) which would conditionally certify the project to the Department of Revenue (DOR). Upon completion of the project, DED would certify the project eligibility to DOR, and DOR would refund the sales tax paid on the project.

If the proposal became effective August 28, 2011, construction could begin late in FY 2012 and would likely not be completed until late in FY 2013. Refunds would not likely be certified and paid to project owners until FY 2014.

Oversight is not aware of any existing or planned projects which could qualify for the program, but if one new facility project was completed in time for a refund to be paid in FY 2014, the sales tax amounts could be computed as follows. For fiscal note purposes, Oversight assumes the entire $5 million investment would qualify for the exemption.

Entity	Sales Tax Rate	Sales Tax
General Revenue Fund	3%	$150,000
Conservation Commission Fund	1/8%	$6,250
School District Trust Fund	1%	$50,000
Parks, and Soil and Water Funds	1/10%	$5,000
Local Governments	Average 2.5%	$125,000

Oversight will indicate a revenue reduction in excess of $100,000 for FY 2014 for the General Revenue Fund and for local governments, and less than $100,000 for other state funds which receive sales tax revenues.

Local government technology business facility

Oversight notes that these provisions would authorize a local government to purchase, construct, extend, or improve a business facility for certain technology businesses. Oversight notes that these provisions are permissive; therefore, any fiscal impact from those activities would result from decisions made by the governing body of the local government. Oversight will not indicate any fiscal impact for those provisions in this fiscal note.

ASSUMPTION (continued)

Section 136.055 - Sales or use tax on new motor vehicle

Officials from the **Department of Revenue** estimate this legislation could have a negative impact to total state revenue in each fiscal year of up to $2.7 million. In FY 2010 license fee offices collected approximately $134 million in state sales and use taxes on new vehicles. In FY 2010 license fee offices collected approximately $40 million in local sales and use taxes on new vehicles.

Officials from **Department of Transportation** state this proposal contains a provision to specifically allow fee offices to retain an amount equal to 2% of any sales or use tax on a new motor vehicle the fee office agent collects. This amendment to section 136.055 will have a negative fiscal impact upon MoDOT, because it will reduce the motor vehicle sales and use tax process that are then distributed to MoDOT, cities, and counties pursuant to article IV, section 30 (b), Missouri Constitution. MoDOT assumes that this 2% retainage will not be included when calculating DOR's 3% cost of collection cap, which will have a negative fiscal impact on MoDOT.

Officials from the **County of St. Charles** assume this proposal would have an unknown fiscal impact. The cost to county government just for the 2% sales tax retention by fee agents would be a minimum of approximately $160,000 per year.

Section 137.082 - Assessment of newly constructed residential property

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

BAP officials assume this proposal would change the year of assessment for a newly constructed but never occupied property from the second year after completion to the fourth year after completion. The proposal, if enacted, could slow the growth in assessed valuations of improved properties but BAP does not have the data to estimate these impacts. The proposal would not impact general revenues but could reduce funding for schools and could slow growth in state Blind Pension Fund receipts.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would not impact state revenues but would have a negative impact on the revenue stream of local governments. DESE has no means to calculate such impact, however.

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

Officials from the **State Tax Commission** (TAX) assume this proposal would not have a fiscal impact on their organization. The proposal would extend the time period for newly constructed property to be assessed regardless of whether the property is located in a county that has enacted an occupancy provision. TAX officials stated that implementation of the proposal would result in a loss of revenue to local governments, but they did not have the information that would allow them to calculate the potential revenue loss.

Officials from the **City of Kansas City** assume this proposal would extend the time when newly constructed but unoccupied improvements can be assessed and placed on the property tax roll for taxation purposes. The proposed legislation would require taxing jurisdictions to wait until the fourth year following construction to add the taxable assessed valuation for the improvements. The impact of extending the requirement to assess and levy taxes for improvements from two years to four years would in effect eliminate two years of tax revenue which jurisdictions currently receive for newly constructed residential property. This would have a negative impact on taxing jurisdictions.

Kansas City officials did not provide an estimate of the fiscal impact to their organization.

Officials from **Boone County** assume this proposal would increase the cost to taxing entities in Boone County by $142,000 per year. Boone County officials also assume this proposal would require their county to adopt assessment on occupancy, and that change would increase assessment fund withholding from property taxes collected from 0.5% of collections to 0.6% of collections. That 20% increase in withholdings would result in a revenue increase from $710,000 to $852,000 per year to the assessment fund.

Officials from the **City of St. Louis** assume this proposal would apply to unsold homes in a builder’s inventory. City officials stated that the cost would vary from year to year, but the current cost would be about $36,000 per year for all taxing entities in the City, and about 21% or $7,665 would be the cost to their organization.

Officials from the **City of Richmond** provided a response to this proposal but not an estimate of the potential fiscal impact to their organization.

Oversight notes that current provisions for newly constructed residential real estate allow counties and the City of St. Louis to assess that property when it is occupied or on the second January 1 following the year in which construction was completed. Oversight does not have information as to how many jurisdictions assess properties on occupancy, and how many assess properties on the second January 1 following completion.

ASSUMPTION (continued)

Oversight also notes that properties are assessed as of January 1; therefore, a property which was completed and occupied in the same year would be assessed on the following January 1. Property taxes would first be due on December 31 following the January 1 on which the property was first assessed. A property which was completed but not occupied would be assessed on the second following January 1; a delay of an additional year.

A property completed in 2009 but not occupied would currently be assessed for the first time on January 1, 2011 and taxes would be due December 31, 2011 (FY 2012.). Taxes would also be collected on that property in FY 2013 and FY 2014.

Oversight notes that this proposal would only have an impact for jurisdictions which assess on the second following January 1; the proposal would delay the initial assessment of the completed but not occupied property until the fourth following January 1. The proposal would result in two additional years in which the improved property would be taxed at the value of the unimproved lot. The proposal would be effective in August of 2011; a property completed in 2009 but not occupied would have been assessed for the first time on January 1, 2011. Taxes on the property would be due on December 31, 2011 (FY 2012). Therefore, Oversight will indicate no fiscal impact for this proposal for FY 2012.

A property completed in 2010 but not occupied would be assessed for the first time January 1, 2012 under current provisions, and taxes would be due on that property December 31, 2012 (FY 2013). This proposal would delay that initial assessment until January 1, 2014, and taxes would first be due on that property December 31, 2014 (FY 2015).

Local governments and the state Blind Pension Fund would have revenue losses beginning in FY 2013 for property taxes on completed but unoccupied residential property. Oversight does not have information on the number, value, or location of completed but unoccupied residential properties. Accordingly, Oversight will indicate unknown losses for those years.

Sections 144.032 & 205.205 - Hospital district sales tax

Officials from **Department of Elementary and Secondary Education (DESE)** state this proposal does not impact DESE or local schools.

Officials from the **County of Iron** state the County concurs with the fiscal impact statement submitted by Iron County Hospital concerning this legislation.

ASSUMPTION (continued)

Officials from the **Iron County Hospital** state in the event a sales tax is approved in Iron County, the financial ramifications will have a tremendously positive impact on the current financial situation the hospital is in. Since the hospital opened its doors in 2006, the hospital has experienced massive amounts of debt primarily due to the fact the hospital did not have any operating cash to operate the hospital and therefore starting out in a deficit that it has to recover from. The hospital currently has aged account payables in excess of $3.4M.

The approval of a sales tax will allow the hospital to not only have an impact in addressing the current outstanding debt issues but it will also allow the hospital to purchase necessary equipment that is much needed in order to provide the necessary medical services and procedures.

Oversight assumes this proposal authorizes hospital districts located within Iron County to abolish their existing property tax levies and, upon voter approval, impose a sales tax of up to one percent to fund the district. Oversight assumes if the voters were to approve a sales tax there would be revenue generated as well as costs related to holding an election. There would also be a reduction of revenue in hospital property tax.

Oversight assumes if the citizens would approve a sales tax to fund the hospital district, the Department of Revenue would retain a 1% collection fee which would be deposited into the State's General Revenue Fund.

The tax must receive voter approval before it could be implemented; therefore, **Oversight** assumes this proposal is permissive and, by itself, would have no state or local fiscal impact.

Sections 320.400, 320.402, 320.404, 320.406, 320.408, 320.410, 320.412, 320.414, 320.416 - Fire sprinkler contractor regulations

Officials from the **Office of Administration - Facilities Management, Design and Construction (OA-FMDC)** state it is unclear to OA what entity is responsible for verification of the required registration. IF FMDC is not responsible under the provision then there is no impact to OA. If FMDC would be required under this provision, additional cost will be incurred for every project which includes fire sprinklers. A specific impact cannot be determined at this time; funding source would depend on the specific project.

In response to a similar proposal from 2010 (HB 2132, 4984-01), officials from the **Office of Administration - Administrative Hearing Commission** anticipated that this legislation would not significantly alter its caseload. However, if other similar bills also pass, there will be fiscal impact. If there are more cases, or more complex cases, there could be fiscal impact.

ASSUMPTION (continued)

In response to a similar proposal from this session (HB 769, 1718-02), officials from the **County of St. Louis** stated if the County is required to enforce, the County could incur minor costs in time spent verifying compliance when permits or license are issued by the County. The County is unable to estimate the costs, however, as it depends on how they post compliant sprinkler contractors.

Oversight assumes this proposal allows a municipality, county, or any other local governmental body to require a contractor to obtain a permit and pay a fee for the installation of a fire sprinkler system. **Oversight** assumes the proposal is permissive and would have no local fiscal impact without action by the governing body.

Officials from the **Department of Public Safety - Division of Fire Safety (DPS)** state this legislation establishes a new program for the Division of Fire Safety for the certification of fire sprinkler contractors.

Section 320.402 requires fire sprinkler contractors to register with the State Fire Marshal and for the State Fire Marshal to review the documentation and accept a registration fee to be established in rule. Section 320.404 establishes a new board within the Division of Fire Safety – the Fire Sprinkler System Advisory Council. This board would be comprised of 7 members including the State Fire Marshal and have rule promulgating authority. Section 320.408.8 creates the Fire Sprinkler Contractor Registration Fund to consist of monies collected under sections 320.400 to 320.416 to support the administration of the program. This fund would be swept biennially. Contractors are to renew every two years with the State Fire Marshal. Section 320.414 states the Fire Marshal may deny the request for registration.

A representative from the National Fire Sprinkler Association indicated there to be approximately 100 fire sprinkler contractors in the State of Missouri, and approximately 40 fire sprinkler contractors from surrounding states who would want to be registered in Missouri in order to be able to conduct business here.

Based on this information, the Division would need to hire a 1,000 hour clerical employee and a Fire Safety Inspector to process the applications and accounting, review the documentation, issue the registration certificates for the fire sprinkler contractors, conduct quality control of contractors, and investigate all complaints. Related expense and equipment funding would also be requested. Total costs for FY12 would be $79,036. However, the fees set by rule would offset this expense. The registration fee of $1500 for each of the anticipated 140 contractors would generate $187,500 in the first year, and $15,000 in the second year. Fees would generate a positive net effect over two-year span.

ASSUMPTION (continued)

Section 320.408.8 states 'any money remaining in the fund at the end of the biennium shall revert to the credit of the general revenue fund.' Therefore, **Oversight** will assume the net balance of the fund after the first biennium period will revert to the General Revenue fund in FY 2014. The net of fiscal years 2012 and 2013 is estimated to be $40,729 ($108,464 - $67,735); therefore, Oversight will reflect this as an inflow into General Revenue in FY 2014.

This proposal will increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
Income - any monies in the new Fire Sprinkler Contractor Registration Fund at the end of the biennium shall revert to General Revenue (§320.408.8)	$0	$0	$40,729
Additional revenue - tax amnesty program*	More than $100,000	Unknown	Unknown
Additional revenue - federal reciprocal agreement (32.385)	Unknown	Unknown	Unknown
Cost - Department of Revenue			
Salary (1.0 FTE)	($18,900)	($23,360)	($24,061)
Overtime	($68,000)	$0	$0
Fringe benefits	($45,483)	($12,227)	($12,594)
Equipment and expense	($5,444)	($537)	($553)
Total	($137,827)	($36,124)	($37,208)
Cost - Department of Revenue - collection procedures, amnesty program, consulting, system upgrade, and additional postage	(More than $100,000)	(More than $100,000)	(More than $100,000)
Cost - Department of Revenue IRS match process (32.385)	(Unknown)	(Unknown)	(Unknown)

Revenue reduction - interest, penalties, and additions to tax waived from tax amnesty program	(Unknown)	$0	$0
Revenue reduction - sales tax exemption (§67.2050 & 144.810)	$0	$0	(More than $100,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**Unknown greater than $100,000 to (Unknown greater than $237,827)**	**Unknown to (Unknown greater than $136,124)**	**Unknown greater than $40,729 to (Unknown greater than $237,208)**
Estimated Net FTE Effect on General Revenue Fund	1	1	1

*** Note: The Department of Revenue has estimated that the amnesty program would result in the collection of approximately $74 million in FY 2012 of which approximately $50 million is currently identified and the balance of approximately $24 million would be considered additional revenue**.

BLIND PENSION FUND

Revenue reduction - delayed assessment of new unoccupied residential property (§137.082)	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**(Unknown)**	**(Unknown)**

ROAD FUND

Revenue reduction - motor vehicle sales and use tax proceeds (§136.055)	($2,500,000)	($2,500,000)	($2,500,000)
ESTIMATED NET EFFECT ON ROAD FUND	**($2,500,000)**	**($2,500,000)**	**($2,500,000)**

FIRE SPRINKLER CONTRACTOR REGISTRATION FUND			
Income - Division of Fire Safety for registration fees	$187,500	$15,000	$187,500
Costs - Division of Fire Safety			
Personal Service (1 FTE)	($28,870)	($34,990)	($35,340)
Fringe Benefits	($19,472)	($23,600)	($23,836)
Temporary employee (1,000)	($8,333)	($10,100)	($10,201)
Expense and Equipment	($22,361)	($14,045)	($14,393)
Total Costs - Division of Fire Safety	($79,036)	($82,735)	($83,770)
Loss - §320.408.8 states monies in the fund at the end of the biennium shall revert to General Revenue	$0	$0	($40,729)
ESTIMATED NET EFFECT TO THE FIRE SPRINKLER CONTRACTOR REGISTRATION FUND	**$108,464**	**($67,735)**	**$63,001**
CONSERVATION COMMISSION FUND			
Additional Revenue - Tax amnesty program	Unknown	Unknown	Unknown
Additional revenue - federal reciprocal agreement (32.385)	Unknown	Unknown	Unknown
Revenue reduction - interest, penalties, and additions to tax waived.	(Unknown)	$0	$0
Revenue reduction - sales tax exemption (§67.2050 & 144.810)	$0	$0	(Less than $100,000)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**Unknown to (Unknown)**	**Unknown**	**Unknown to (Unknown less than $100,000)**

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
PARKS, AND SOIL AND WATER FUNDS			
Additional Revenue - Tax amnesty program	Unknown	Unknown	Unknown
Additional revenue - federal reciprocal agreement (32.385)	Unknown	Unknown	Unknown
Revenue reduction - interest, penalties, and additions to tax waived.	(Unknown)	$0	$0
Revenue reduction - sales tax exemption (§67.2050 & 144.810)	$0	$0	(Less than $100,000)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	**Unknown to (Unknown)**	**Unknown**	**Unknown to (Unknown less than $100,000)**
SCHOOL DISTRICT TRUST FUND			
Additional revenue - federal reciprocal agreement (32.385)	Unknown	Unknown	Unknown
Revenue reduction - sales tax exemption (§67.2050 & 144.810)	$0	$0	(Less than $100,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**Unknown**	**Unknown**	**Unknown to (Unknown less than $100,000)**

VARIOUS STATE FUNDS			
Additional revenue - federal reciprocal agreement (32.385)	Unknown	Unknown	Unknown
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	**Unknown**	**Unknown**	**Unknown**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
Additional revenue - federal reciprocal agreement	Unknown	Unknown	Unknown
Revenue reduction - sales tax exemption (§67.2050 & 144.810)	$0	$0	(More than $100,000)
Revenue reduction - delayed assessment of new unoccupied residential property (137.082)	$0	(Unknown)	(Unknown)
Revenue reduction - motor vehicle sales and use tax proceeds (136.055)	($300,000)	($300,000)	($300,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**Unknown to (Unknown greater than $300,000)**	**Unknown to (Unknown greater than $300,000)**	**Unknown to (Unknown greater than $400,000)**

FISCAL IMPACT - Small Business

Sections 32.028, 32.058, 32.087, 32.088, 32.383, 32.385, 32.410, 32.420, 32.430, 32.440, 32.450, 32.460, 105.716, 140.910, 144.083, 168.071

This proposal could have a direct fiscal impact to small businesses due to changes in program limits.

Sections 67.2050 & 144.810

This proposal could have a direct fiscal impact to small businesses which construct or acquire qualifying facilities.

Sections 144.032, 205.205

Small business located in a hospital district that elects to impose a sales tax will be required to collect and remit the additional sales tax.

Section 137.082

This proposal would have a direct fiscal impact on small businesses which own new residential properties.

Sections 320.400, 320.402, 320.404, 320.406, 320.408, 320.410, 320.412, 320.414, 320.416

Small fire sprinkler businesses would need to be registered by the state as a result of this proposal.

FISCAL DESCRIPTION

This bill authorizes an amnesty from the assessment or payment of all penalties, additions to tax, and interest on delinquencies of unpaid taxes administered by the Department of Revenue which occurred on or prior to December 31, 2010. A taxpayer must apply for amnesty and pay the unpaid taxes in full from August 1, 2011, to October 30, 2011, and agree to comply with state tax laws for the next eight years from the date of the agreement. All new revenues resulting from the tax amnesty program will be deposited into the General Revenue Fund unless otherwise earmarked by theMissouri Constitution. The bill becomes effective July 1, 2011, and will expire December 31, 2014.

The bill contains an emergency clause.

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
    Division of Accounting
    Administrative Hearing Commission
    Facilities Management, Design and Construction
Department of Natural Resources
Department of Agriculture
Department of Economic Development
Department of Elementary and Secondary Education
Department of Health and Senior Services
Department of Insurance, Financial Institutions, and Professional Registration
Department of Revenue
Department of Transportation
Office of the Governor
Office of Secretary of State
Office of Attorney General
Office of the State Auditor
State Treasurer's Office
Department of Public Safety
    Division of Fire Safety
Department of Conservation
State Tax Commission
County of St. Charles
County of St. Louis
City of Kansas City
Parkway School District
Boone County
City of St. Louis
City of Richmond
County of Iron
Iron County Hospital

Mickey Wilson

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