COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0363-11
Bill No.: HCS for SS#2 for SCS for SB Nos. 26, 11 & 31
Subject: Business and Commerce; Taxation and Revenue - Income; Taxation and Revenue - Property; Taxation and Revenue - Sales and Use; Auditor, State; Counties; Revenue Department
Type: Original
Date: April 18, 2013

Bill Summary: This proposal would modify various laws regarding taxation, authorize a tax amnesty program, and allow amended property tax rate filings with the Office of the State Auditor.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue *	($27,477,435)	($144,927,618) to Possibly $55,072,382 with passage of federal Marketplace Fairness Act	($228,955,182) to Possibly ($28,955,182) with passage of federal Marketplace Fairness Act
Total Estimated Net Effect on General Revenue Fund *	**($27,477,435)**	**($144,927,618) to Possibly $55,072,382 with passage of federal Marketplace Fairness Act**	**($228,955,182) to Possibly ($28,955,182) with passage of federal Marketplace Fairness Act**

*Fully implemented (FY 2019) estimated net effect ($438,493,885) to Possibly ($238,493,885) with passage of federal Marketplace Fairness Act.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 35 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	(Up to $1,140,729)	(Up to $1,368,785)	(Up to $1,368,785)
Parks, and Soil and Water	(Up to $912,584)	(Up to $1,095,100)	(Up to $1,095,100)
School District Trust	(Up to $9,125,837)	(Up to $10,951,005)	(Up to $10,951,005)
Road Funds	$7,200,000	$20,800,000	$131,200,000
Mental Health	$52,000,000	$124,900,000	$23,100,000
Total Estimated Net Effect on Other State Funds*	**More than $48,020,850**	**More than $132,285,110**	**More than $140,885,110**

* The fully implemented impact of the proposal will occur in FY 2019. Please see pages 28 - 29 for detail.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	3 FTE	7 FTE	7 FTE
Total Estimated Net Effect on FTE	**3 FTE**	**7 FTE**	**7 FTE**

☒ 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 2014	FY 2015	FY 2016
Local Government	**(Up to $34,578,181)**	**(Up to $41,413,817)**	**(Up to $41,413,817)**

FISCAL ANALYSIS

ASSUMPTION

Section 32.070, etc., RSMo. - Streamlined Sales Tax Program:

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 provided the following analysis of the proposal:

This proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement; the proposal would become effective Jan. 1, 2015.

ASSUMPTION (continued)

Two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce provided an estimated range of $108 million (Eisanach & Litan, Feb. 2010) and $210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

BAP officials noted that remote sellers would be able to remit sales tax under this agreement and estimated that this proposal would generate at least $10 million in Total State Revenues annually, of which $7 million would be due to the General Revenue Fund. However, the full amount may not be collected during the first year, due to the administrative processes of becoming a full member state of the SSTA.

Oversight has reviewed the studies cited by BAP and we noted that there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were $26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that $8.7 billion was uncollected for the United States. If 1.8% of the $8.7 billion was due the state of Missouri, the additional revenue would amount to $156.6 million. The Eisenach and Litan report suggests only $3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be $70.2 million.

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

ASSUMPTION (continued)

Oversight was provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional $13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary, and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

The $13.7 million in additional collected would be due to the following state funds, and **Oversight** has also provided an estimate of additional revenues to local governments.

Entity	Tax Rate	
General Revenue Fund	3.000%	$9,738,000
School District Trust Fund	1.000%	$3,246,000
Conservation Commission Fund	0.125%	$324,600
Parks, and Soils Fund	0.100%	$405,800
Local Governments *	Average 3.800%	$12,334,900
Total	NA	$26,049,300

* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

ASSUMPTION (continued)

For fiscal note purposes, Oversight will indicate additional revenue in excess of $100,000 per year for those state funds that receive sales tax revenues, and for local governments.

Sections 144.010, 144.030, and 144.605, RSMo. - Sales and Use Tax

In response to similar provisions in SB 174 LR 1031-01 (2013) officials from the **Office of the Attorney General** assumed any potential costs arising from this proposal could be absorbed with existing resources.

In response to similar provisions in SB 174 LR 1031-01 (2013) officials from the **Joint Committee on Administrative Rules** assumed the proposal would not have a fiscal impact to their organization in excess of 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.

BAP officials assume this proposal would expand the definition of "seller" and other related definitions under sales tax law, to include more out-of-state vendors doing business inside the state. BAP officials also noted that various studies have suggested Missouri is losing hundreds of millions of dollars in sales taxes on sales by out-of-state vendors, often via e-commerce. These changes would allow DOR to begin capturing taxes from some vendors that are currently unidentified. It would also make it easier to comply with the Streamlined Sales Tax Agreement.

BAP estimates this proposal would increase Total State Revenues by $10 million annually, of which $7 million would be deposited in the General Revenue Fund.

In response to similar provisions in SB 174 LR 1031-01 (2013) officials from the **Department of Conservation (MDC)** assumed the proposal would have an unknown fiscal impact, but greater than $100,000 to their organization. MDC officials noted that Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to the Missouri Constitution and this proposal would expand the definition of "engaging in business" and "maintaining a business" within the state. MDC officials noted that any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds, and assume the Department of Revenue would be better able to estimate the fiscal impact for this proposal.

ASSUMPTION (continued)

In response to similar provisions in SB 174 LR 1031-01 (2013) officials from the **Department of Natural Resources (DNR)** assumed the proposal would modify existing provisions relating to Sales Tax and Compensating Use Tax. A presumption would be created that a vendor engages in business activities within this state if any person with a substantial nexus to Missouri performs certain activities in relation to the vendor within this state.

The proposal would void any agreement between the executive branch and any person that would exempt that person from the collection of sales and use tax, unless that agreement is approved by the General Assembly.

DNR officials noted that Parks and Soils Sales Tax Funds are derived from a one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. DNR officials also noted that the proposal appears to expand who is required to collect the sales and use tax, potentially resulting in increased revenue for the Parks and Soils Sales Tax Funds.

DNR officials deferred to the Department of Revenue for an estimate of anticipated fiscal impact for the Parks and Soils Sales Tax Fund.

In response to similar provisions in SB 174 LR 1031-01 (2013) officials from the **Department of Revenue (DOR)** assumed the proposal would modify the current definition of “engaging in business” in this state for sales and use tax purposes. This proposal would require approval by the General Assembly for any ruling, agreement, or contract between a person and this state's agencies exempting any person from collecting sales and use tax despite the presence of a warehouse, distribution center, or fulfillment center in this state that is owned or operated by the person or an affiliated person. An "affiliated person" would mean any person that is a member of the same "controlled group of corporations" as defined in Section 1563(a) of the Internal Revenue Code as the vendor.

ASSUMPTION (continued)

A vendor would be presumed to "engage in business activities within this state" if any person, other than a common carrier acting in its capacity as such, that has substantial nexus with this state:

1) sells a similar line of products as the vendor and does so under the same or a similar business name,
2) maintains an office, distribution facility, warehouse, or storage place, or similar place of business in the state to facilitate the delivery of property or services sold by the vendor to the vendor's customers,
3) delivers, installs, assembles, or performs maintenance services for the vendor's customers within the state,
4) facilitates the vendor's delivery of property to customers in the state by allowing the vendor's customers to pick up property sold by the vendor at an office, distribution facility, warehouse, storage place, or similar place of business maintained by the person in the state; or
5) conducts any other activities in the state that are significantly associated with the vendor's ability to establish and maintain a market in the state for the sales.

The proposal would allow for the rebuttal of those presumptions by demonstrating that the person's activities in the state are not significantly associated with the vendor's ability to establish or maintain a market in this state for the vendor's sales.

A vendor would also be presumed to engage in business in the state if that vendor enters into an agreement with one or more residents of this state under which the resident, for a commission or other consideration, directly or indirectly refers potential customers, if the cumulative gross receipts from sales under such arrangements exceed ten thousand dollars during the preceding twelve months. The proposal would allow for the rebuttal of this presumption by submitting sworn written statements from all of the residents with whom the vendor has such an agreement.

Fiscal impact

DOR officials assumed the proposal would generate increased revenue from sellers located outside the state.

ASSUMPTION (continued)

Administrative impact

DOR officials assumed Collections and Tax Assistance (CATA) would require one additional FTE Revenue Processing Technician I (Range 10, Step L) per 8,300 additional registrations / maintenance to business tax accounts in Business Tax Registration; one additional FTE Revenue Processing Technician I (Range 10, Step L) per 24,000 additional contacts annually to the registration phone line, with CARES equipment and agent license; and one additional FTE Revenue Processing Technician I (Range 10, Step L) per 4,800 contacts annually to the field offices, with CARES equipment and agent license.

The DOR response included three additional FTE along with the associated benefits, equipment, and expense, and totaled $123,042 for FY 2014, $122,613 for FY 2015, and $123,903 for FY 2016.

Oversight assumes the DOR estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2014 could be reduced by roughly $6,000 per additional employee.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees, and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight has not been able to locate any reliable information as to the potential impact of sales and use tax changes in this proposal other than the estimates provided by the Office of Administration - Division of Budget and Planning and the Department of Revenue.
For fiscal note purposes, Oversight will assume that revenues from this proposal would generate more new sales and use tax revenue than would be needed to provide the additional employees requested by the Department of Revenue. If revenues are not adequate to support the costs of collections, Oversight assumes the program would be terminated.

ASSUMPTION (continued)

Accordingly, **Oversight** will indicate additional revenues greater than the DOR costs for the General Revenue Fund. Oversight will indicate revenues greater than $100,000 per year for local governments and unknown additional revenues for the other state funds which receive general sales tax revenues. Oversight assumes the law changes in this proposal would not have an impact on motor vehicle or motor fuel sales and will not include any fiscal impact for transportation funds.

Income Tax Changes

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

The proposal would phase in, over five-years beginning in tax year 2014, a reduction in the individual income tax rate, from 6.0% to 5.3333…%; in addition, the proposal would provide an additional $2,000 deduction for taxpayers with AGI less than $20,000; and it would phase in over five years beginning in tax year 2014, a 50% exclusion of business income from individual income tax.

The proposal would also phase in, over five-years beginning in tax year 2014, a reduction in the corporate income tax rate, from 6.25% to 5.5% and a $25,000 exemption for corporate income.

BAP officials assume General and Total State Revenue would be impacted. BAP officials noted the new tax rates go into effect for tax years beginning 1/1/14, so these provisions would have cash flow impacts as early as February 2014. Therefore, General and Total State Revenues would be reduced beginning in FY 2014.

BAP officials noted the figures indicated in the table for the change in business income taxes differ than those previously indicated. This is due to the interplay between this provision and the changes in the individual tax rates on the line above. Taken independently the reduction would be higher, and would be similar to the reductions estimated for stand-alone versions of this language.

BAP officials made no assumption about the federal adoption of the Marketplace Fairness Act. If adopted, additional income tax revenues would be forgone.

ASSUMPTION (continued)

Oversight notes that BAP provided an estimate of revenue reductions which combined the impact of changes to the individual and corporate income tax provision.

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Corporate	$10.9	$38.6	$46.3	$54.0	$61.6	$67.0
Personal	$71.2	$255.1	$353.2	$443.5	$541.4	$589.8
Business	$17.8	$72.1	$123.8	$172.9	$219.4	$250.7

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** provided this response for the personal income tax provisions in this proposal:

Personal income tax

This bill would gradually reduce the individual income tax rates by modifying the personal income tax table yearly through 2018. Eventually by 2018 the top tax bracket would be eliminated, reducing the Missouri personal income tax table to nine brackets. At that time, filers with taxable income over $8,000 would be taxed at the new maximum tax rate of 5 1/3%.

Our simulations require that these gradual changes in the individual income rates must be analyzed in conjunction with the proposed additional exemption for filers with less than $20,000 in Missouri adjusted gross income as well as the "Business Income" subtraction. The combined impact estimation will be discussed at the end of this section.

This proposal would allow an additional $2,000 personal and spouse income exemption for individuals earning less than $20,000 in Missouri adjusted gross income, and the legislation would allow a "business income" subtraction from filers' federal adjusted gross income when deriving their Missouri adjusted gross income; a 10% subtraction for 2014, a 20% subtraction for 2015, a 30% subtraction for 2016, a 40% subtraction for 2017 and a 50% subtraction for 2018.

ASSUMPTION (continued)

EPARC officials determined “business income” for the Missouri 1040 by assuming that business income would be reported self-employment income on the filers’ federal form 1040; EPARC then divided each filer’s self-employment tax by the applicable tax rate. The resulting EPARC estimate of aggregate positive “business income” was $7,229,010,965 for 312,226 Missouri filers.

EPARC officials provided a set of simulations for the personal income tax changes in the proposal including the reduced tax rates, business income deductions, and additional exemptions for low-income filers.

Year	Personal income tax	Revenue reduction
Baseline	$4,693,390,000	
2014	$4,581,624,000	$111,766,000
2015	$4,444,057,000	$249,333,000
2016	$4,335,826,000	$357,564,000
2017	$4,199,347,000	$494,043,000
2018	$4,103,379,000	$590,011,000

These provisions would become effective as of January 1 and Oversight assumes the tax returns for that year would be filed beginning January 1 of the following year. Although the rate changes and other provisions could lead to taxpayers adjusting their tax withholding or their estimated tax payments, **Oversight** will assume for fiscal note purposes that the 2014 changes would become effective for FY 2015.

ASSUMPTION (continued)

Section 143.011.2 RSMo. - Personal Income Tax:

Oversight notes this proposal includes a provision which would further reduce the personal income tax rate by 0.33% upon the passage of a federal law allowing states to apply sales taxes to internet and other remote sales in their state.

EPARC officials did not provide a set of simulations for the additional contingent personal income tax rate reduction.

In response to a previous version of this proposal, EPARC officials provided a set of simulations for the potential additional revenue reduction of 0.25% for this provision. These simulations also included the reduced tax rates, business income deductions, and additional exemptions for low-income filers discussed above.

Oversight will use the previous EPARC estimates of additional revenue reduction and notes that this provision is contingent. For fiscal note purposes, Oversight will indicate a range of revenue reduction of $0 (no federal law) or the impact in the table below (federal law passed).

Year	Additional Revenue Reduction
Baseline	NA
2014 (FY 2015)	$172,169,000
2015 (FY 2016)	$172,239,000
2016 (FY 2017)	$173,162,000
2017 (FY 2018)	$171,124,000
2018 (FY 2019)	$177,738,000

ASSUMPTION (continued)

Oversight also notes this version of the proposal includes a trigger which would only authorize the contingent rate changes if actual revenues exceed the base period by $100 million.

Corporate income tax

This proposal would reduce the corporate income tax rate from 6.25% to 6.1% in 2014, to 5.95% in 2015, to 5.8% in 2016, to 5.65% in 2017, and then to 5.5% in 2018. The proposal would also exempt the first $25,000 of corporate income from taxation.

Oversight will use the EPARC estimates of revenue reduction as compiled in the following chart:

Year	Corporate Income Tax Rate	Estimated Corporate Income Tax Liability	Revenue Reduction
Baseline	6.25%	$383,905,000	NA
2014 (FY 2015)	6.10%	$357,717,000	$26,188,000
2015 (FY 2016)	5.95%	$348,920,000	$34,985,000
2016 (FY 2017)	5.80%	$340,124,000	$43,781,000
2017 (FY 2018)	5.65%	$331,328,000	$52,577,000
2018 (FY 2019)	5.50%	$322,531,000	$61,374,000

These provisions would become effective as of January 1, and Oversight assumes the tax returns for that year would be filed beginning January 1 of the following year. Although the rate changes and other provisions could lead to taxpayers adjusting their estimated tax payments, Oversight will assume for fiscal note purposes that the 2014 changes would become effective for FY 2015.

ASSUMPTION (continued)

Sections 144.020 and 144.700, RSMo. - Sales and Use Tax

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

These provisions would increase the state sales tax rate from 4% to 4.6% over a 5-year period; therefore, these provisions would increase General and Total State Revenues, highway funds, and would provide a dedicated fund for construction of a new mental health facility.

The general portion of the sales tax rate would increase from 3 to 3.6% over a 5-year period. However, the first 0.2% of this sales tax increase would be dedicated first to the new mental health facility, and subsequently to the Road Fund. Therefore, the General Revenue Fund would not be impacted until FY2015.

The initial 0.6% increase would also apply to motor vehicle sales, so this proposal would generate additional transportation funds.

BAP officials provided this estimate of the additional sales tax revenue. Amounts are in millions of dollars.

Fund	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
General Revenue (0.4%)	$0.0	$26.0	$88.4	$150.9	$213.3	$249.8
Road (Motor Vehicle 0.6%)	$7.2	$20.8	$29.4	$38.0	$46.7	$51.7
Mental Health (0.2%)	$52.0	$124.9	$23.1	$0.0	$0.0	$0.0
Road (0.2%)	$0.0	$0.0	$101.8	$124.9	$124.9	$124.9

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** provided this response for the sales tax provisions in this proposal:

The current effective sales tax rate for the General Revenue Fund is 3%. This proposal would increase that rate by one-fifth of a percent in 2014, then by one-tenth of a percent each year until 2018. Our databases indicate General Revenue Sales Tax Collections for calendar year 2012 equal to $1,872,741,982 and a General Revenue apportionment of the Motor Vehicle Sales Tax equal to $1,574,153. Both of these collections would be impacted an increase in the effective general sales tax rate. Combined, these collections equal to $1,874,316,135. If we multiply this amount by one-thirtieth we can estimate the increase in collections generated by a one-tenth increase in the sales tax rate: $62,477,205. Therefore we would expect an increase in sales tax collections of $124,954,409 in 2014, $187,431,614 in 2015, $249,908,818 in 2016, $312,386,023 in 2017, and $374,863,227 in 2018.

Oversight will use the BAP estimates of additional sales tax revenues.

ASSUMPTION (continued)

Sales Tax Exemptions

Section 144.020, RSMo. Sales Tax Exemption on Recreation:

Officials from the Joint **Committee on Administrative Rules** assumed that similar provisions in HB 149 LR 0533-01 (2013) would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Department of Revenue (DOR)** assumed that similar provisions in HB 149 LR 0533-01 (2013) would exempt amounts paid for admission, seating, accommodations, or fees paid to places of recreation from the state sales tax. Based on taxable sales figures from 2011, DOR officials estimated a reduction in sales tax revenue to the General Revenue Fund of approximately $22.2 million and a reduction in Total State Revenue of $31.2 million.

Administrative impact

DOR officials assumed Collections and Tax Assistance (CATA) would need to send letters to all "recreation" businesses to determine if they have sales that are still taxable. Also, CATA would see an increase in phone calls, file maintenance, and bond refunds based on this legislation.

DOR officials also assumed CATA 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. In addition, the Legal Services Division would require one additional FTE Legal Counsel to cover additional sales tax litigation.

The DOR estimate of fiscal impact for this proposal included three additional employees; with benefits, equipment, and expense, the DOR estimate totaled $147,618 for FY 214, $159,096 for FY 215, and $160,736 for FY 2016.

ASSUMPTION (continued)

Oversight notes that DOR officials assumed a similar proposal in a previous session (SB 288 LR 1587-01, 2011) would have no fiscal impact on their organization, and will not include any DOR costs in the fiscal impact for this proposal. Oversight assumes that notification costs to potentially exempt sellers would be provided in regular DOR communications to sales tax licensees.

Officials from the **City of Kansas City** assumed in response to similar provisions in HB 149 LR 0533-01 (2013) that exempting from local sales tax amounts paid for admission or fees to places of recreation would result in the following annual revenue losses to their organization, assuming an effective date for the legislation at the end of August, 2013:

Fiscal year ending April 30, 2014:	$866,667 revenue loss (8 months loss)
Fiscal year ending April 30, 2015:	$1,300,000 revenue loss
Fiscal year ending April 30, 2016:	$1,300,000 revenue loss

Officials from **St. Louis County** assumed similar provisions in HB 149 LR 0533-01 (2013) would result in a small but unknown loss to their organization.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assumed similar provisions in HB 149 LR 0533-01 (2013) would not result in additional costs or savings to their organization.

BAP officials stated the proposal would create a state and local sales tax exemption for the amount paid for admission and seating accommodations, or fees paid to, or in, any place of recreation. BAP officials noted that "recreation" is not defined in statute.

BAP officials provided information from the Department of Revenue (DOR) for taxable sales from SIC Code 79, Amusement and Recreation Services, in 2011, and noted that sales taxes may be reduced by the amounts below. BAP officials noted that these sales may include sales of tangible goods, which would not be exempt under this proposal. Also, additional sellers not classified in SIC 79 could also be classified as "recreation", which would increase the revenue loss.

ASSUMPTION (continued)

Reported Sales

SIC	DESCRIPTION	SALES TOTAL
791	DANCE HALLS, STUDIOS, AND SCHOOLS	$4,936,920.82
792	PRODUCERS, ORCHESTRAS, ENTERTAINERS	$54,026,838.31
793	BOWLING BILLARD ESTABLISHMENTS	$72,623,115.43
794	COMMERCIAL SPORTS	$339,909,520.89
798	RIVERBOATS - NO GAMBLING	$124,954,004.45
799	MISC. AMUSEMENT AND RECREATION	$633,845,781.00
79	AMUSEMENT/RECREATION SERVICES	$1,230,296,180.90

Sales Tax Revenue

General Revenue Fund	$36,908,885
School District Trust Fund	$12,302,962
Conservation Commission Fund	$1,537,870
Parks, and Soils and Water Fund	$1,230,296

ASSUMPTION (continued)

Oversight will use the BAP / DOR estimate of sales tax revenue and will assume that Local governments would have a revenue reduction of ($1,230,296,181 X 3.8 % average rate) = $46,751,255. Oversight calculated the 3.8 % average local sales tax rate based on DOR reported collections of local sales tax. For fiscal note purposes, Oversight will include losses as follows:

Revenue Reductions from Recreation Sales Tax Exemption

	FY 2014 (10 months)	FY 2015 Full year	FY 2016 Full year
General Revenue	$30,757,404	$36,908,885	$36,908,885
School District Trust	$10,252,468	$12,302,962	$12,302,962
Conservation Commission	$1,281,558	$1,537,870	$1,537,870
Parks, and Soil and Water	$1,025,247	$1,230,296	$1,230,296
Local governments	$38,959,379	$46,751,255	$46,751,255

Oversight will not include an annual increase in the revenue reduction for the General Revenue Fund, since the exemption would presumably become effective before the phased in increase in the sales tax rate would become effective.

Section 144.517, RSMo. Sales Tax Exemption on Textbooks

Oversight notes that Section 144.517 RSMo, which allowed the exemption, was repealed in this proposal and the exemption was not included in the replacement provisions.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center (EPARC)** provided this response for the sales tax provisions in this proposal:

ASSUMPTION (continued)

This proposal repealed the current sales tax exemption for textbooks. EPARC officials stated that their data indicated textbook sales during the 2012 calendar year amounted to $135,195,748.

Oversight assumes the revenue increase for this change would be ($135,198,748 x 3%) = $4,055,962 and will not include an annual increase in the revenue reduction for the General Revenue Fund, since the exemption repeal would presumably become effective before the phased in increase in the sales tax rate would become effective.

Oversight also notes that this provision could become effective as of the end of August, 2013 (FY 2014); therefore Oversight will include ten months of revenue ($4,055,962 x 10/12) = $3,379,969 for FY 2014.

Oversight notes that other state fund which receive sales tax revenues, and local governments would have additional revenue due to the repeal of the exemption.

Fund or entity	Sales Tax Rate	Additional Annual Revenue	FY 2014 Additional Revenue (10 months)
Conservation Commission	0.125%	$168,995	$140,829
Parks, and Soil and Water	0.100%	$135,196	$112,663
School Districts	1.000%	$1,351,957	$1,126,631
Local governments	3.800%	$5,137,438	$4,281,198

The Oversight Subcommittee met on March 13, 2013, and voted to reflect additional revenue for the Streamlined Sales Tax program. The additional revenue would range from the combined revenue reduction for personal and corporate income which this proposal would require upon adoption of the Federal Marketplace Fairness Act or equivalent law, to an amount $200 million greater than the contingent income tax revenue reduction.

ASSUMPTION (continued)

Bill as a whole responses

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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

In Section B, this proposal has a contingency clause for the changes in the sales tax rates and the income tax rates. The rate changes shall only become effective if the tax revenues collected in the current year exceed those collected in the prior year by at least $100 million. For simplicity, **Oversight** will assume this will occur and show the changes in fiscal impact as occurring in FY 2014.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
Additional revenue - DOR			
Streamlined sales tax		$0 or	$0 or
Marketplace Fairness Act contingency		$172,169,000 to	$172,239,000 to
Sections 32.070, etc.	$0	$372,169,000	$372,239,000
Additional revenue - DOR			
Streamlined sales tax		More than	More than
Sections 32.070, etc.	$0	$100,000	$100,000
Additional revenue - DOR			
Sales and use tax nexus	More than	More than	More than
Sections 140.010, 144.030, and 144.605	$112,424	$107,294	$108,497
Additional Revenue - DOR			
Repeal textbook sales tax exemption			
Section 144.517	$3,379,969	$4,055,962	$4,055,962
Additional Revenue - DOR			
Increased sales tax rate			
Section 144.020, and 144.700	$0	$26,000,000	$88,400,000
* Fully implemented revenue increase for 2019 is $249,800,000.			
Cost - DOR			
Streamlined sales tax program	(More than	(More than	(More than
Sections 32.070, etc.	$100,000)	$100,000)	$100,000)
Cost - DOR			
Sales and use tax nexus			
Sections 144.010, 144.030, and 144.605			
Salaries and wages (3 FTE)	($57,840)	($69,408)	($70,102)
Benefits	($29,351)	($35,221)	($35,573)
Equipment and expense	($25,233)	($2,665)	($2,732)
Total costs - DOR	($112,424)	($107,294)	($108,407)
FTE change - DOR	3 FTE	3 FTE	3 FTE

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
Cost - DOR			
Personal income tax			
Section 143.011			
Salaries	$0	($46,735)	($109,383)
Temporary employees	$0	($7,800)	($15,756)
Benefits	$0	($27,649)	($55,506)
Equipment and expense	$0	($38,511)	($3,614)
Total	$0	($120,695)	($184,259)
FTE Change - DOR		4 FTE	4 FTE
Revenue reduction - DOR			
Personal income tax			
Section 143.011.1 *	$0	($111,766,000)	($249,333,000)
* Fully implemented impact for FY 2019 is ($590,011,000).			
Revenue reduction - DOR			
Personal income tax			
Marketplace Fairness Act contingency			
Section 143.011.2 *	$0	$0 or (More than $172,169,000)	$0 or (More than $172,239,000)

* Fully implemented impact for FY 2019 is $0 or ($177,738,000).

Revenue reduction - DOR			
Corporate income tax			
Section 143.071.3 *	$0	($26,188,000)	($34,985,000)

* Fully implemented impact for FY 2019 is ($61,374,000).

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
Revenue reduction - DOR Recreation sales tax exemption Section 144.020	($30,757,404)	($36,908,885)	($36,908,885)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($27,477,435)**	**($144,927,618) to Possibly $55,072,382 with passage of federal Marketplace Fairness Act**	**($228,955,182) to Possibly ($28,955,182) with passage of federal Marketplace Fairness Act**

* Fully implemented impact of ($438,493,885) to Possibly ($238,493,885) with passage of federal Marketplace Fairness Act for 2019 and later years.

Estimated Net FTE Effect on General Revenue Fund	3 FTE	7 FTE	7 FTE

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
CONSERVATION COMMISSION FUND			
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	Unknown	Unknown
Additional revenue - DOR Streamlined sales tax Sections 32.070, etc.	$0	More than $100,000	More than $100,000
Additional Revenue - DOR Repeal textbook sales tax exemption Section 144.517	$140,829	$168,995	$168,995
Revenue reduction - DOR Recreation sales tax exemption Section 144.020	($1,281,558)	($1,537,870)	($1,537,870)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**(Up to $1,140,729)**	**(Up to $1,368,785)**	**(Up to $1,368,785)**

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
PARKS, AND SOIL AND WATER FUND			
Additional revenue - DOR Streamlined sales tax Sections 32.070, etc.	$0	More than $100,000	More than $100,000
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	Unknown	Unknown
Additional Revenue - DOR Repeal textbook sales tax exemption Section 144.517	$112,663	$135,196	$135,196
Revenue reduction - DOR Recreation sales tax exemption Section 144.020	($1,025,247)	($1,230,296)	($1,230,296)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**(Up to $912,584)**	**(Up to $1,095,100)**	**(Up to $1,095,100)**

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
SCHOOL DISTRICT TRUST FUND			
Additional revenue - DOR Sales and use tax nexus Sections 140.010, 144.030, and 144.605	Unknown	Unknown	Unknown
Additional revenue - DOR Streamlined sales tax Sections 32.070, etc.	$0	More than $100,000	More than $100,000
Additional Revenue - DOR Repeal textbook sales tax exemption Section 144.517	$1,126,631	$1,351,957	$1,351,957
Revenue reduction - DOR Recreation sales tax exemption Section 144.020	($10,252,468)	($12,302,962)	($12,302,962)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**(Up to $9,125,837)**	**(Up to $10,951,005)**	**(Up to $10,951,005)**
ROAD FUNDS			
Additional Revenue - DOR Increased sales tax rate on vehicles Section 144.020, 144.21, 144.440 *	$7,200,000	$20,800,000	$29,400,000
* Fully implemented revenue increase for 2019 is $51,700,000.			
Additional Revenue - DOR Increased highway use tax on vehicles Section 144.020, 144.21, 144.440 *	$0	$0	$101,800,000
* Fully implemented revenue increase for 2019 is $124,900,000.			
ESTIMATED NET EFFECT ON ROAD BOND FUND	**$7,200,000**	**$20,800,000**	**$131,200,000**
* Fully implemented revenue increase for 2019 is $175,600,000.			

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
MENTAL HEALTH FUND			
Additional Revenue - DOR Increased sales tax rate on vehicles Section 144.020, 144.21, 144.440 *	$52,000,000	$124,900,000	$23,100,000
ESTIMATED NET EFFECT ON STATE ROAD FUND	**$52,000,000**	**$124,900,000**	**$23,100,000**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL GOVERNMENTS			
Additional revenue - DOR			
Streamlined sales tax		More than	More than
Sections 32.070, etc.	$0	$100,000	$100,000
Additional revenue - DOR			
Sales and use tax nexus	More than	More than	More than
Sections 140.010, 144.030, and 144.605	$100,000	$100,000	$100,000
Additional Revenue - DOR			
Repeal textbook sales tax exemption			
Section 144.517	$4,281,198	$5,137,438	$5,137,438
Revenue reduction - DOR			
Recreation sales tax exemption			
Section 144.020	($38,959,379)	($46,751,255)	($46,751,255)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**(Up to $34,578,181)**	**(Up to $41,413,817)**	**(Up to $41,413,817)**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which are subject to tax.

FISCAL DESCRIPTION

The proposed legislation would modify multiple provisions regarding taxation.

Personal Income Tax

This proposal would modify the individual income tax rate table. Beginning with the 2014 tax year, the maximum tax rate on personal income would be reduced by 0.75% over a period of five years. For tax years beginning on or after 2018, the maximum tax rate would be 5.25%. If the federal government implements the Marketplace Fairness Act of 2013 or similar legislation, the maximum rate of tax on personal income would be reduced an additional 0.25%.

This proposal would create an individual income tax deduction for business income, and would phase it in over a five-year period. Taxpayers would be allowed to deduct ten percent of business income for the 2014 tax year and, once fully phased-in, would be allowed a fifty percent deduction for all tax years after the 2018 tax year. Shareholders of S corporations and partners in partnerships would be allowed a proportional deduction based their share of ownership.

Currently, there is a personal exemption amount of $2,100 for personal income taxes. This act increases the exemption amount by $2,000 for individuals with a Missouri adjusted gross income of less than $20,000.

Corporate Income Tax

This proposal would reduce the tax rate on corporate income by 0.75% over a period of five years, beginning with the 2014 tax year. For all tax years beginning on or after January 1, 2018, the tax rate on corporate income would be 5.5%. If the federal government implements the Marketplace Fairness Act of 2013, or similar legislation, the maximum rate of tax on personal income would be reduced an additional 0.25%. The proposal would also exempts the first $25,000 of corporate income from taxation.

FISCAL DESCRIPTION (continued)

Sales and Use Taxes

The current rate for state sales and use tax is 4%. This proposal would raise the rate by 0.1% each year for five years, beginning January 1, 2014. For calendar years beginning on or after January 1, 2018, the state sales and use tax rate would be 4.5%.

Sales Tax Exemption

Currently, a sales tax of four percent is collected on amounts paid for admission and seating and fees paid to places of amusement, entertainment or recreation. This act would provide a sales tax exemption for fees paid to such places. There is currently a sales tax exemption for textbooks; this proposal would repeal that exemption.

Streamlined Sales and Use Tax Agreement

This proposal would require the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement. Missouri would be represented by three delegates in meetings with other states regarding the Agreements. One delegate would be appointed by the Governor, one delegate would be appointed by mutual agreement between the Speaker of the House of Representatives and the President Pro Tem of the Senate, and the director of the Department of Revenue would be the third delegate. These delegates would report annually to the General Assembly regarding the agreement.

Cities imposing sales taxes would be required to notify the Department of Revenue within 10 days of changing their boundaries. Any sales tax changes due to a boundary change would take affect on the first day of the next calendar quarter, 120 days after the Department receives notice of the change.

When a political subdivision changes its local sales tax rate or taxing boundary, such change would take affect on the first day of the next calendar quarter, 120 days after the Department of Revenue receives notice of the change

The proposal would require all state and local sales taxes to have the same bases by requiring identical exemptions at the state and local level, and uniform sourcing rules to determine what tax rates would apply to certain transactions. Political subdivisions would be prohibited from opting out of a sales tax holiday.

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FISCAL DESCRIPTION (continued)

The proposal would require the Department of Revenue to participated in an on-line registration system for sales tax collection, but registration in that system could not be used as a factor to determine nexus with this state. The Department of Revenue would be required to accept electronic payments. Sellers would be allowed to deduct uncollectible bad debts attributable to taxable sales from sales tax remittances.

The Department of Revenue would be required to provide electronic databases for taxing jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services. Sellers would be relieved from liability if they fail to properly collect tax based on certain information provided by the department. Amnesty would be available for sellers under certain circumstances, following registration with the state.

Monetary allowances equal to two percent of taxes collected would be allowed to sellers and certified service providers for collecting and remitting state and local taxes. Sellers and certified service providers would be prohibited from simultaneously receiving the monetary allowance and the two percent timely filed discount provided under current law. The act sets out requirements for the seller and purchaser for tax exempt sales.

For products that are bundled, with one item being taxable and the other nontaxable, the entire product would be subject to taxation unless the provider can properly identify the nontaxable portion. For products that are bundled items with different tax rates, the highest tax rate would be used for the entire product unless the provider can properly identify the lower taxed item.

The provisions relating to the Streamlined Sales and Use Tax Agreement would have an effective date of January 1, 2015.

Use Tax and Nexus

This proposal would make agreements between the executive branch and any person that exempts them from collection of sales and use tax void unless approved by both chambers of the General Assembly.

The definition of "engages in business activities within this state" would be modified. The use of media to exploit Missouri's market would no longer meet the definition. In addition, common control by the same interests which control a seller engaged in a similar line of business in this state would no longer meet the definition.

FISCAL DESCRIPTION (continued)

Under the Compensating Use Tax Law, a presumption would be created that a vendor "engages in business activities within this state" if a person with a substantial nexus to Missouri performs certain activities in relation to a vendor within the state. The presumption may be rebutted by showing that the person's activities are not significantly associated with the vendor's ability to maintain a market in Missouri.

A presumption would be created that a vendor "engages in business activities within this state" if the vendor enters into an agreement with a resident of Missouri to refer customers to the vendor, and the sales generated by the agreement exceed $10,000 in the preceding twelve months. This presumption may be rebutted by showing that the Missouri resident did not engage in activity within Missouri that was significantly associated with the vendor's market in Missouri in the preceding twelve months.

The definition of "maintains a place of business in this state" would be modified to remove common carriers from its provisions. Currently, there is an exemption from the definition of vendor for vendors whose gross receipts are less than certain amounts, do not maintain a place of business in Missouri, and have no selling agents in Missouri. This proposal would remove that exception.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of the Secretary of State
Office of the Attorney General
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Conservation
department of Natural Resources
Department of Revenue
University of Missouri
    Economic and Policy Analysis Research Center
St. Louis County
City of Kansas City

Ross Strope
Acting Director
April 18, 2013

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