COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 0372-01
Bill No.: SJR 11
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Property; Taxation and Revenue - Sales and Use
Type: Original
Date: April 15, 2015

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Bill Summary: This legislation would propose a constitutional amendment to phase out the individual income tax and replace the current sales and use tax with a state sales tax on specified retail sales and services.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 | Fully Implemented |
| General Revenue * | $0 or (More than $7,100,000) | $0 | $0 or ($1,121,114,167) | $0 or (More than $717,319,029) |
| **Total Estimated Net Effect on General Revenue *** | **$0 or (More than $7,100,000)** | **$0** | **$0 or ($1,121,114,167)** | **$0 or (More than $717,319,029)** |

* Would be fully implemented in FY 2021.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 25 pages.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 | Fully Implemented |
| Road * | $0 | $0 | $0 or ($154,367,963) | $0 or ($308,735,926) |
| | | | | |
| **Total Estimated Net Effect on Other State Funds *** | **$0** | **$0** | **$0 or ($154,367,963)** | **$0 or ($308,735,926)** |

* Would be fully implemented in FY 2021.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 | Fully Implemented |
| | | | | |
| | | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** | |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 | Fully Implemented |
| General Revenue | 0 | 0 | 346 FTE | 346 FTE |
| | | | | |
| **Total Estimated Net Effect on FTE** | **0** | **0** | **346 FTE** | **346 FTE** |

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2016 | FY 2017 | FY 2018 | Fully Implemented |
| **Local Government** * | **$0** | **$0** | **$0** | **$0** |

* Net of election cots and reimbursements.

## FISCAL ANALYSIS

### ASSUMPTION

**Oversight** was unable to receive agency responses in a timely manner due to the short fiscal note request time. Oversight has prepared this fiscal note with the best current information that we have, or with prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will prepare an updated fiscal note and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials from the **Department of Revenue (DOR)** assume this proposal would reduce income tax revenue and increase sales tax revenue with the intent of creating a neutral impact to Total State Revenue. However, the Department does not believe the expanded base or the allowed sales tax rate cap increase would be sufficient to offset the decrease in income tax revenue.

Fiscal impact

DOR officials estimated a potential impact to Total State Revenue as detailed below:

| | |
|---|---|
| 2018: | ($1.191 Billion) |
| 2019: | ($1.104 Billion) |
| 2020: | ($2.450 Billion) |

DOR officials assume the changes to the individual income tax would result in the following reduction to Total State Revenue:

| | |
|---|---|
| 2018: | ($2.330 Billion) |
| 2019: | ($2.243 Billion) |
| 2020: | ($5.512 Billion) |

DOR officials noted the proposed amendment would repeal any law prior to the effective date of this resolution imposing and levying a sales tax effective January 1, 2017. Effective January 1, 2018, the General Assembly would enact a law that imposes a tax not over five percent. After January 1, 2020, the sales tax could not exceed seven percent. On January 1, 2020, the cumulative sales tax rate could not exceed 10 percent except under certain conditions.

ASSUMPTION (continued)

**DOR** officials estimated the following increase to Total State Revenue from the potential increase to the sales tax rate.

| | |
|---|---|
| 2018: | $1.139 Billion |
| 2019: | $1.139 Billion |
| 2020: | $3.062 Billion |

Administrative impact

DOR officials stated their organization would need to have personnel fully trained as of January 1, 2018. This would require training temporary staff beginning in October 2017; for Fiscal Year 2017, the Department would require no additional full-time employees. DOR officials assume this proposal would have a significantly larger impact on the Department if the Department would be required to collect the tax from the person consuming, using, or storing the tangible personal property or taxable service.

DOR officials assume Personal Tax would retain 100 percent of existing staff for FY 2018, FY 2019, and the first six months of FY 2020 to continue the processing and collection duties of individual income tax.

Collections & Tax Assistance (CATA) would need an additional 88 temporary full time employees for FY 2018 including CARES phones & licenses, based on the presumption of doubling the number of businesses for registration, contacts, and collection efforts; CATA would begin training employees in October 2017. CATA may reduce 15 percent of the temporary employees in FY 2019 and another 15 percent in FY 2020 due to a decline in income, withholding, and corporate tax accounts.

DOR officials assume Withholding Tax would retain 100 percent of existing staff for FY 2018, FY 2019, and the first six months of FY 2020 to continue the processing and collection duties withholding tax and financial institutions tax.

ASSUMPTION (continued)

**DOR** officials assume business tax would need an additional 92 full-time temporary employees for sales and use tax in FY 2018, FY 2019, and FY 2020 on the assumption that the workload for sales and use tax will double because of additional filers. The Department assumes that although the new sales tax would go into effect January 1, 2018, some current staff responsible for income tax would not be available for reallocation until Fiscal Year 2021. Therefore, temporary staff would be needed until the current staff can be reallocated. If the number of new filers should more than double, the amount of additional resources would increase proportionately.

DOR officials also assume Business Tax would need one additional Economist (Range 30, Step Q) starting in FY 2018.

Legal Services

Based on the presumption of doubling the number of businesses licensed to collect and remit sales tax, DOR officials assume there would be a substantial increase in the caseload. The Department anticipates a reduction in income tax cases over time, but expect the current workload would continue for the next few years. DOR officials assume Legal services would need an additional four attorneys and two support staff.

Field Compliance

DOR officials assume it would be necessary to double the audit enforcement staff. This would require additional in-state and out of state personnel. Currently, Field Compliance has 159 assigned positions with an approximate payroll of $7.2 million. The addition of 159 new positions would increase Field Compliance to 318 positions and a payroll of approximately $15 million.

The DOR response included an estimate of cost to implement this proposal including 346 additional employees. The total cost, including employees and related benefits, equipment, and expense, totaled $13,197,159 for FY 2018, $14,653,061 for FY 2019, and $14,810,581 for the proposal as fully implemented.

ASSUMPTION (continued)

**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 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.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of $162,729 based on 2,170 hours of contract programming at the current state contract rate for IT services of $75.

**Oversight** will include the DOR estimate of IT cost in the fiscal note.

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** provided the following response.

EPARC officials assume upon voter approval, this proposed constitutional amendment would phase-out the state individual income tax by 2020. In order to compensate for lost revenue from the repeal of individual income tax, this amendment would gradually increase the state sales tax rate through 2020, and apply the increased sales tax rate to food and services as well. The proposal would deposit the additional revenues into General Revenue, where it would provide for a transfer from General Revenue into the School District Trust Fund for revenue lost from the repeal of Proposition C and associated Motor Vehicle taxes. The proposal would preserve the current excise taxes on tobacco and alcohol, aviation fuel, insurance premiums, and any taxes imposed and distributed into the Conservation, Parks & Soils and Motor Fuel Funds.

The proposal would also allow counties and other political subdivisions to enact an individual income tax on the income of its taxpayers, as long as the appropriate legislation is enacted by 2017 and "lawfully renewed" by its voters.

Regarding property taxes, this amendment would require a "mechanism for the continuation of any property tax relief available to senior citizens and disabled individuals" that was previously provided in the form of an income tax credit, and allow for an additional "property tax relief credit" for increases in assessed evaluation above designated limits.

ASSUMPTION (continued)

**EPARC** officials stated they were currently unable to estimate the impact of allowing counties and other political subdivisions to enact an individual income tax upheld by the vote of its constituents. In addition, EPARC officials stated they could not estimate the extent of an additional "property tax relief credit" which might be provided for excessive increases in assessed evaluation.

EPARC officials provided an estimate of the impact of the remaining parts of the legislation below.

Individual Income Tax

EPARC officials noted the proposed constitutional amendment would reduce the individual income tax rate to a maximum of 3% in 2018, and would allow no tax on individual income after January 1, 2020.

EPARC officials prepared a simulation of Net Tax Due using the most recent income tax data from 2013 and existing provisions as a baseline, and another simulation using the same data and provisions except for the proposed 3% maximum income tax rate. The simulations indicated a revenue reduction from the baseline of $5,124,717,000 to an adjusted Net Tax Due of $2,783,064,000, a reduction of $2,341,653,000.

Property Tax Credits

EPARC officials stated they we are unable to estimate the amount of "property tax relief credits" for excessive increases in assessed evaluation, but provided the amount of Circuit Breaker Tax Credits that would be replaced with a new credit if the proposal is implemented. EPARC officials provided an estimate of the replacement credit of $103,712,641.

Tax on Sales and Services

EPARC officials noted that in order to compensate for the loss of income tax revenue, in 2018 the proposed amendment would repeal all current sales and use taxes within the scope of General Revenue and implement a tax on sales and services at a rate of 5%, and would increase this rate to 7% in 2020.

ASSUMPTION (continued)

**EPARC** officials noted there would be an impact on other funds from this proposal, but noted the impact on those other funds in another section of their response.

Sales tax on current general sales tax base

The EPARC baseline for tax collections from a tax on the sales of goods was taken from the Department of Revenue's Annual Financial and Statistical Report for Fiscal Year 2013. That report indicated General Sales and Use Tax collections of $1,895,024,076, and EPARC officials noted these collections were generated from a 3% tax rate.

EPARC officials then estimated the current sales of goods base at ($1,895,024,076 / 3%) = $63,167,469,200 and noted the sales tax at 5% would be $3,158,373,460 and the sales tax at 7% would be $4,421,722,844.

Sales tax on food

EPARC officials also noted this proposed amendment would impose a 4% sales tax on food in 2018, increasing in 2020 to 5.5%. EPARC officials estimated Missourians spend $10,218,455,916 per year on food. Multiplying that base by 4% would indicate 2018 sales tax collections on food of ($10,218,455,916 x 4%) = $408,738,237, and multiplying that base by 5.5% would indicate 2020 sales tax collections on food of ($10,218,455,916 x 5.5%) = $562,015,075.

**Oversight** notes the current sales tax on food is 1% which is deposited into the State School Moneys Fund. Using the EPARC estimate of food sales, the current sales tax rate of 1% would indicate sales tax revenues of ($10,218,455,916 x 1%) = $102,184,559 and the proposal would increase the sales tax on food by ($408,738,237 - $102,184,559) = $306,553,678 in 2018 and by ($562,015,075 - $102,184,559) = $459,830,516 in 2020.

Sales tax on services

EPARC officials noted that preparing an estimate for tax revenues for a tax on services requires an estimate of the tax base for services, and stated their estimate of $27,454,028,617. EPARC officials then multiplied that base by 5% to estimate 2018 tax collections on services of $27,454,028,617 x 5%) = $1,372,701,431, and multiplied that base by 7% to estimate 2020 tax collections on services of ($27,454,028,617x 7%) = $1,921,782,003.

ASSUMPTION (continued)

Sales tax on motor vehicles

EPARC officials noted the proposed amendment would repeal the Highway Use and Motor Vehicle taxes (non-general revenue taxes); however it provides a tax on sales of goods and services including the sales of motor vehicles at the proposed new rates which would be collected in General Revenue. The proposed amendment stipulates that the "sales of personal property for which a sales or use tax has been collected due to a prior taxable transaction" would be exempt from the new sales tax. Therefore, only the sale of new motor vehicles would be taxed.

EPARC officials estimated that Missourians spend $4,216,052,128 annually on new motor vehicles. At a 5% tax rate, the sales tax collections on the sales of new motor vehicles in 2018 would be ($4,216,052,128 x 5%) = $210,802,606 and at a 7% tax rate, the sales tax collections on the sales of new motor vehicles in 2020 would be ($4,216,052,128 x 7%) = $295,123,649.

ASSUMPTION (continued)

The following table summarizes the EPARC estimates for the impact on General Revenue and calculates the Change in Net General Revenue for 2018 and 2020:

| | BASELINE | 2018<br>Food @ 4%<br>Other Sales @ 5%<br>Income @ 3% | 2020<br>Food @ 5.5%<br>Other Sales @ 7%<br>No Income Tax |
|---|---|---|---|
| Tax on Current Sales Base | $1,895,024,076 | $3,158,373,460 | $4,421,722,844 |
| Tax on Food | $0 | $408,738,237 | $562,015,075 |
| Tax on Service | $0 | $1,372,701,431 | $1,921,782,003 |
| Tax on New Motor Vehicles | $0 | $210,802,606 | $295,123,649 |
| Individual Income Tax/ Circuit Breaker | $5,124,717,000 | $2,783,064,000 | ($103,712,641) |
| School District Trust Funds to Non-General Revenue | $0 | ($776,676,324) | ($776,676,324) |
| Total | $7,019,741,076 | $7,157,003,410 | $6,320,254,606 |
| Change in Net Revenue | NA | $137,262,334 | ($699,486,470) |

ASSUMPTION (continued)

**Oversight** notes the EPARC estimates for sales tax are for calendar years and assumes the sales tax impact on the General Revenue Fund would be as shown in the following table.

| | FY 2018 (Note 1) | FY 2019 (Note 2) | FY 2020 (Note 3) | FY 2021 (Note 4) |
|---|---|---|---|---|
| Tax on Current Base | $631,674,693 | $1,263,648,384 | $1,895,024,076 | $2,526,698,768 |
| Tax on Food | $204,369,119 | $408,738,237 | $485,376,656 | $562,015,075 |
| Tax on Service | $686,350,716 | $1,372,701,431 | $1,647,241,717 | $1,921,782,003 |
| New Motor Vehicles | $105,401,303 | $210,802,606 | $252,963,128 | $295,123,649 |
| Total | $1,627,795,831 | $3,255,890,658 | $4,280,605,577 | $5,305,619,495 |

Note 1 - The amount shown for FY 2018 is six months calculated impact for the changes that would be effective January 1, 2018 since the sales tax changes would be effective for half the fiscal year, and expected collections would be slightly less than half the annual total due to reporting and deposit delays.

Note 2 - The amount shown for FY 2019 is a full year of calculated impact for the changes that would become effective January 1, 2018.

Note 3 - The amount shown for FY 2020 is a half year of calculated impact for the changes that would become effective January 1, 2018 and a half year of calculated impact for the changes that would become effective January 1, 2020.

Note 4 - the amount shown for FY 2021 is a full year calculated impact for the changes that would be effective January 1, 2020.

ASSUMPTION (continued)

Impact on Other Funds

**EPARC** officials noted the proposed amendment would exempt several non-general revenue collections from the repeal of the sales and use tax. These exemptions include local taxes authorized for local purposes, excise taxes on tobacco and alcohol, and taxes on aviation fuel, insurance premiums, and any taxes collected for the Conservation, Parks & Soils, and Motor Fuel Funds. Baseline figures for Aviation Jet Fuel, Tobacco, Conservation, Parks & Soils, Education, Highway Use, and Motor Vehicles were obtained from the Department of Revenue's Annual Financial and Statistical Report for Fiscal Year 2013. Baseline figures for Alcohol, Insurance Premiums, and Motor Fuel were obtained from the EPARC database.

EPARC officials also noted this proposed amendment stipulates that tax rates will be adjusted in 2018 for the Conservation and Parks & Soils Funds so that collections would be equivalent to the collection average of fiscal years 2012 to 2016. Therefore, the 2018 and 2020 estimates for collections for the taxes associated with the Conservation and Park & Soils funds were calculated from the average collections of those funds from fiscal years 2011 to 2013.

Highway Use Tax and Motor Vehicle Sales Tax

**Oversight** notes these current taxes would be reduced by \$75,979,910 and \$232,776,016, respectively, and the proposal does not include a provision for transfers from the General Revenue Fund to offset those revenue reductions. Oversight will include those changes as revenue reductions for road funds. Although the Highway Use tax is distributed to several state funds and to local governments, for fiscal note purposes Oversight will indicate the combined impact to these road funds.

For FY 2018, Oversight will indicate an estimated revenue reduction of one-half of the full year estimated impact of (\$75,959,910 + \$232,776,016) = \$308,735,929 / 2) = \$154, 367,963; for the fully implemented impact, Oversight will indicate the estimated full year impact of \$308,735,926.

ASSUMPTION (continued)

School District Trust Fund

**EPARC** officials noted the proposed amendment would require that collections from the new tax on sales and services be deposited in General Revenue, except a portion that would be deposited into the School District Trust Fund, a non-general revenue fund whose tax would be repealed by the proposed amendment. The amount deposited in this fund would be equivalent to the average collections of the fund for the fiscal years 2012 to 2016. EPARC officials stated the average for fiscal years 2011 to 2013, (which would be used for the estimate for 2018 and 2020) based on the EPARC calculated average from the Missouri Department of Revenue's Annual Financial and Statistical Reports for those years was $776,676,324.

The following table displays the EPARC estimates generated for the impact on Non-General Revenue and calculates the Change in Net Non-General Revenue for 2018 and 2020:

| Non-General Revenue | | | |
|---|---|---|---|
| | 2013 BASELINE | 2018 New Sales Tax Rate @ 5% | 2020 New Tax @ 7% |
| Education Sales and Use | $728,820,622 | $0 | $0 |
| Education Motor Vehicle | $69,850,666 | $0 | $0 |
| Highway Use | $75,979,910 | $0 | $0 |
| Motor Vehicles | $232,776,016 | $0 | $0 |
| School District Trust Funds from General Revenue | $0 | $776,676,324 | $776,676,324 |
| Total | $1,107,427,214 | $776,676,324 | $776,676,324 |

ASSUMPTION (continued)

**Oversight** notes the FY 2018 sales tax changes would be effective January 1, 2018 which would reduce revenues to the School District Trust Fund by approximately one-half and will include a transfer of one-half the EPARC estimate of revenue reduction or ($776,676,324 / 2) = $388,338,162 for FY 2018.

**Oversight** assumes the combined impact of the sales tax changes and the requirement to transfer revenues from the General Revenue Fund to the School District Trust Fund would offset, with no resulting net fiscal impact to the School District Trust Fund.

Impact on Local Sales Taxes

EPARC officials noted that under the proposed amendment, counties and other political subdivisions would be required to modify their local sales tax base in 2017 to include the items and services included in the new state tax on sales and services. They would then be required to recalculate their local sales tax rates in order to generate collections equal to the average annual collections in the five calendar years 2012-2016.

EPARC officials assumed the language within the amendment to have a revenue neutral impact on local sales taxes.

**Oversight** notes that recalculated rates for the Conservation Commission Sales Tax, The Parks, and Soil and Water Sales tax, and for local government would be implemented at the same time as the new tax base, and notes the sales tax rates are to be adjusted to provide the same revenue as the current sales tax rates. Oversight will assume for fiscal note purposes this provision would have no fiscal impact to those funds and entities.

Oversight assumptions

**Oversight** notes the changes to sales and income tax provisions would be implemented only if the voters approve the proposed constitutional amendment. Accordingly, all potential impact from this proposal including for the election costs will be indicated as "$0 or" the calculated or estimated amounts.

ASSUMPTION (continued)

Individual income tax

**Oversight** notes the maximum individual income tax rate would be reduced to 3% as of January 1, 2018 and the individual income tax would be abolished as of January 1, 2020. The EPARC projections indicate a revenue reduction of $2,341,653,000 for 2018 which will be included as a fiscal impact in FY 2018 when the individual income tax returns would be filed. The EPARC projections indicate a revenue reduction of $5,124,717,000 for 2020 which will be included as a fiscal impact in 2021 when the income tax returns would be filed.

**Oversight** is aware that some individuals would reduce their estimated payments or their withholding in anticipation of a tax reduction but for fiscal note purposes will include the full impact in the year the tax returns would be filed.

**Oversight** also notes the potential exists for a reduction in the personal income tax rates for 2017, which would have a fiscal impact in FY 2018 when 2017 income tax returns are filed. The rate reduction is contingent on net general revenue collections for the state of Missouri exceeding a statutory threshold, which may or may not occur. Accordingly, Oversight will include a revenue reduction estimate up to the amount calculated above for this proposal.

**Oversight** will include a cost of $103,712,641 for the required replacement of the current Senior Property (Circuit Breaker) Tax and an Unknown cost for the required program to provide similar relief for property tax assessment increases in excess of the allowable percentages.

Officials from the **Department of Conservation (MDC)** assume this legislation would propose a constitutional amendment to phase out the individual income tax and replace the current sales and use tax with a state sales tax on specified retail sales and services.

MDC officials noted the proposal would eliminate the one-eighth of one percent sales tax voted in by Missouri citizens in 1976; that revenue from the Conservation sales tax has not kept pace with inflation or General Revenue since 2000; and the revised rate would be determined during a period of slow economic growth for the state and the Department. MDC officials did not provide a specific estimate of the fiscal impact of this proposal on their organization.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources (DNR)** noted this proposal would submit to the voters a constitution amendment that would phase out the individual income tax and replace the current sales and use tax with a state sales tax on specified retail sales and services.

DNR officials assume this proposal could possibly reduce the amount of funding available in the Parks and Soils Sales Tax Funds, and deferred to the Department of Revenue, the Office of Administration - Division of Budget and Planning, and the University of Missouri - Economic and Policy Analysis Research Center would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials from the **City of Kansas City** assume the proposed increase in the state sales tax rate from this measure would create a disincentive to shop in Kansas City, Missouri, causing more consumers to shop online or in nearby Kansas stores. This would reduce Kansas City local sales tax revenues, but the City is unable to estimate the amount of the revenue loss.

Officials from the **Office of the Secretary of State (SOS)** provided this response to similar language in HJR 23 LR 0834-01.

Each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly. Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election.

The state constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, state law requires the state to pay the costs. The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by the state constitution and state law. The cost of a special election has been estimated to be $7.1 million based on the cost of the 2012 Presidential Preference Primary.

ASSUMPTION (continued)

**SOS** officials stated the SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.3 million historically appropriated in odd numbered fiscal years and $100,000 appropriated in even numbered fiscal years to meet these requirements. Through FY 2013, the appropriation had historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost $2.17 million to publish (an average of $434,000 per issue).

The Secretary of State's office will assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these publications are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements.

**Oversight** notes the proposal would place the proposed amendment on the November 2016 (FY 2017) general election ballot unless a special election is called for the purpose of voting on the proposal. Oversight has reflected in this fiscal note, the cost to the state for potential reimbursement to local political subdivisions for the cost of having this joint resolution voted on during a special election in fiscal year 2016. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled general election is in November 2016 (FY 2017). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2016.

ASSUMPTION (continued)

Officials from the **Secretary of State** also stated that 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 Secretary of State's office for Administrative Rules is less than $2,500. The Secretary of State's office 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 **Joint Committee on Administrative Rules** and the **Platte County Board of Elections** assume this proposal would not have a fiscal impact to their organizations.

Not responding

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, McDonald, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, Shelby, St. Charles, St. Louis, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

| FISCAL IMPACT - State Government | FY 2016 (10 Mo.) | FY 2017 | FY 2018 | Fully Implemented |
|---|---|---|---|---|
| **GENERAL REVENUE FUND** | | | | |
| Additional revenue - Sales Tax | $0 | $0 | $0 or $1,627,795,831 | $0 or $5,305,619,495 |
| Cost - DOR | | | | |
| Temporary Tax Employees (180) | $0 | $0 | $0 or ($1,074,060) | $0 or ($1,370,656) |
| Personal Service | $0 | $0 | $0 or ($10,088,621) | $0 or ($10,304,316) |
| Benefits | $0 | $0 | $0 or ($5,222,867) | $0 or ($5,406,476) |
| Expense and equipment | $0 | $0 | $0 or ($2,370,559) | $0 or ($751,151) |
| IT cost | $0 | $0 | $0 or ($162,729) | $0 |
| Total Cost - DOR | $0 | $0 | $0 or ($18,918,836) | $0 or ($17,832,599) |
| FTE Change - DOR | | | 346 FTE | 346 FTE |
| Revenue reduction - Income Tax | $0 | $0 | $0 or ($2,341,653,000) | $0 or ($5,124,717,000) |
| Cost - Circuit Breaker Property Tax Credit Replacement | $0 | $0 | $0 | ($103,712,641) |
| Cost - Property Tax Relief for Excessive Assessed Valuation Increases | $0 | $0 | $0 | (Unknown) |

| FISCAL IMPACT - State Government (conitnued) | FY 2016 (10 Mo.) | FY 2017 | FY 2018 | Fully Implemented |
|---|---|---|---|---|
| Transfer out - School District Trust Fund | $0 | $0 | $0 or ($388,338,162) | $0 or ($776,676,324) |
| Transfer Out - SOS Reimbursement of local election authorities for election costs **if** a special election is called | $0 or (More than $7,100,000) | $0 | $0 | $0 |
| **ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND** | **$0 or (More than $7,100,000)** | **$0** | **$0 or ($1,121,114,167)** | **$0 or (More than $717,319,029)** |
| Estimated Net FTE Effect to the General Revenue Fund | | | 346 FTE | 346 FTE |
| **ROAD FUNDS** | | | | |
| Revenue reduction - sales tax | $0 | $0 | $0 or ($154,367,963) | $0 or ($308,735,926) |
| **ESTIMATED NET EFFECT ON ROAD FUNDS** | **$0** | **$0** | **$0 or ($154,367,963)** | **$0 or ($308,735,926)** |

| FISCAL IMPACT - Local Government | FY 2016 (10 Mo.) | FY 2017 | FY 2018 | Fully Implemented |
|---|---|---|---|---|
| **LOCAL GOVERNMENTS** | | | | |
| Reimbursement - Transfer from SOS | $0 or More than $7,100,000 | $0 | $0 | $0 |
| Cost - Local elections | $0 or (More than $7,100,000) | $0 | $0 | $0 |
| **ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS** | **$0** | **$0** | **$0** | **$0** |

FISCAL IMPACT - Small Business

This proposal could make substantially more small business purchase subject to sales tax.

FISCAL DESCRIPTION

This legislation would propose a constitutional amendment to phase out the individual income tax and replace the current sales and use tax with a state sales tax on specified retail sales and services.

From January 1, 2018, to January 1, 2020, the individual income tax would be capped at three percent, and after January 1, 2020, the individual income tax would be eliminated.

From January 1, 2018 to January 1, 2020, the state sales tax rate could not exceed five percent except on food, which would be taxed capped at four percent. After January 1, 2020, the combined state sales tax rate including the conservation sales tax and the parks and soils sales tax could not exceed seven percent. For food, the sales tax rate would be capped at five and one-half percent after January 1, 2020. The General Assembly could, however, increase taxes or fees in the event of an emergency.

The combined sales tax rate, including local taxes but excluding transportation development districts and community improvement districts, would be capped at ten percent, although that cap could be exceeded if higher local taxes are approved at an election or the higher rate is the temporary result of a recalculation of local taxes.

All sales tax revenues would be deposited into the General Revenue Fund and appropriated by the General Assembly unless otherwise restricted by the constitution, except that a portion of the funds received would be deposited into the School District Trust Fund. The amount deposited in that fund could not be less than the average annual amount deposited in the fund for fiscal years 2012 through 2016.

The new state sales tax rate would be applied to all retail sales of new tangible personal property and all taxable services. All existing sales tax exemptions would be repealed as of January 1, 2018. The only sales tax exemptions authorized would be those specifically listed in the amendment or passed by a two-thirds majority of the General Assembly.

FISCAL DESCRIPTION (continued)

The General Assembly would be required to enact a law by January 1, 2020, that continues providing a benefit similar to the current Senior Citizens Property Tax Credit. Local sales taxes, the Conservation Sales Tax, and the Parks and Soils Sales Tax would be recalculated to produce substantially the same amount of revenue based on the average collections over a five-year period.

This proposal would create a property tax relief credit equal to fifty percent of the increase in taxes on a homestead to be used on the taxpayer's current property tax bill. To be eligible, the prior year's tax liability on the residence must have increased by more than five percent in a year of general reassessment or two and one-half percent in a year without reassessment. To qualify for the credit, a taxpayer would be required to be at least sixty-five years of age; have total household income of no more than $75,000, adjusted annually based on the consumer price index; and own a residence of no more than $400,000 in appraised value, adjusted annually based on the consumer price index. Any taxpayer who claims this credit could not also claim the Senior Citizen Property Tax Credit or any similar credit.

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

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Conservation
Department of Natural Resources
Department of Revenue
City of Kansas City
Platte County Board of Elections

Mickey Wilson

Mickey Wilson, CPA
Director
April 15, 2015

Ross Strope
Assistant Director
April 15, 2015

SS:LR:OD