

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4050-01
Bill No.: SB 784
Subject: Taxation and Revenue - Sales and Use- Utilities
Type: Original
Date: February 23, 2016

Bill Summary: This proposal creates a state sales and use tax exemption for utilities, equipment and materials used to generate electricity.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(\$20,900,000)	(\$25,100,000)	(\$25,100,000)
Total Estimated Net Effect on General Revenue	(\$20,900,000)	(\$25,100,000)	(\$25,100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Parks, Soil & Water	(\$700,000)	(\$800,000)	(\$800,000)
Conservation	(\$900,000)	(\$1,000,000)	(\$1,000,000)
School Trust	(\$7,000,000)	(\$8,400,000)	(\$8,400,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$8,600,000)	(\$10,200,000)	(\$10,200,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

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 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration's Division of Budget and Planning (B&P)** assume this proposal exempts from sales tax various inputs to the utilities industry. These exemptions include the utilities, chemicals, machinery, equipment, supplies, parts and materials used by that industry.

B&P assumes that the broad terms "supplies, parts, and materials" exempt most inputs to production for the utilities. B&P notes:

- According to the Input-Output Use Tables provided by the US Bureau of Economic Analysis, inputs from commodities that might qualify under these exemptions are roughly 16% of the total output of the "utilities" industry.
- In addition, the Department of Revenue reports that taxable sales of "utilities" in 2014 were about \$5,125.0 million.
- This suggests that this proposal might exempt \$836.4 million in taxable sales from taxation.

This would reduce Total State Revenue by \$35.3 million and General Revenue by \$25.1 million annually beginning in FY 2018. During the first year, FY 2017, this could reduce Total State Revenue by \$29.5million and General Revenue by \$20.9 million. However, actual losses may exceed or differ from this estimate if the actual output of the firms in question differs from the estimate of the taxable sales reported by Department of Revenue, if same inputs are already exempt, or if the ratio of taxable inputs differs from that assumed for this analysis.

Officials at the **Department of Revenue** assume this will not fiscally impact the Department but will reduce State Revenues.

Officials at the **Department of Natural Resources** assume the Department's Parks and Soils Sales Tax Funds (PSSTF) are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, any additional sales and use tax exemptions would be a loss to the Parks and Soils Sales Tax Funds. Providing state sales and use tax exemptions as stated in this proposal decreases the amount of funding available in the Parks and Soils Sales Tax Funds.

The department assumes the Department of Revenue and Office of Administration-Budget and Planning will provide a more detailed account of the fiscal impact to the PSSTF.

ASSUMPTION (continued)

Officials at the **Department of Economic Development, Joint Committee on Administrative Rules** and the **Office of the Secretary of State** each assume there is no fiscal impact from this proposal to their respective organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE			
<u>Revenue Reduction</u> - sales and use tax exemption for utilities	<u>(\$20,900,000)</u>	<u>(\$25,100,000)</u>	<u>(\$25,100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$20,900,000)</u>	<u>(\$25,100,000)</u>	<u>(\$25,100,000)</u>
PARKS, SOIL & WATER FUND			
<u>Revenue Reduction</u> - sales and use tax exemption for utilities	<u>(\$700,000)</u>	<u>(\$800,000)</u>	<u>(\$800,000)</u>
ESTIMATED NET EFFECT ON PARKS, SOIL & WATER FUND	<u>(\$700,000)</u>	<u>(\$800,000)</u>	<u>(\$800,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - sales and use tax exemption for utilities	<u>(\$900,000)</u>	<u>(\$1,000,000)</u>	<u>(\$1,000,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$900,000)</u>	<u>(\$1,000,000)</u>	<u>(\$1,000,000)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	<u>FY 2017</u> (10 Mo.)	<u>FY 2018</u>	<u>FY 2019</u>
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SCHOOL FUNDS

<u>Revenue Reduction</u> - sales and use tax exemption for utilities	<u>(\$7,000,000)</u>	<u>(\$8,400,000)</u>	<u>(\$8,400,000)</u>
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ESTIMATED NET EFFECT ON SCHOOL FUNDS	<u>(\$7,000,000)</u>	<u>(\$8,400,000)</u>	<u>(\$8,400,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the exemption would be positively impacted.

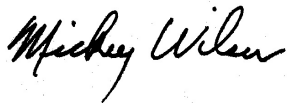
FISCAL DESCRIPTION

This act creates a state sales tax exemption for utilities, equipment, and materials used to generate or transmit electricity.

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

Department of Economic Development
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration-Division of Budget and Planning
Office of the Secretary of State



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Director
February 23, 2016

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February 23, 2016