

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4188-01
Bill No.: SB 706
Subject: Entertainment, Sports and Amusement; Taxation and Revenue - Sales and Use
Type: Original
Date: January 20, 2016

Bill Summary: This proposal creates a sales tax exemption for fitness facilities, gyms, and dance studios.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Up to \$6,750,000)	(Up to \$13,500,000)	(Up to \$13,500,000)
Total Estimated Net Effect on General Revenue	(Up to \$6,750,000)	(Up to \$13,500,000)	(UP to \$13,500,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
School District Trust	(Up to \$2,250,000)	(Up to \$4,500,000)	(Up to \$4,500,000)
Conservation Commission	(Up to \$281,250)	(Up to \$562,500)	(Up to \$562,500)
Parks, and Soil & Water	(Up to \$225,000)	(Up to \$450,000)	(Up to \$450,000)
Total Estimated Net Effect on Other State Funds	(Up to \$2,756,250)	(Up to \$5,512,500)	(Up to \$5,512,500)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 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	(Up to \$8,730,000)	(Up to \$17,460,000)	(Up to \$17,460,000)

FISCAL ANALYSIS

ASSUMPTION

Sections 144.030, RSMo. - Sales and Use Tax Exemptions for Services at Fitness Facilities

Officials from the **Department of Revenue (DOR)** noted this legislation proposal would allow an exemption from tax amounts paid for instructional classes, training, or membership at a fitness facility, gymnasium, or dance studio. The director of revenue must create a rule or regulation to implement the provisions of this subdivision.

Fiscal impact

DOR officials assume the exemption for fitness facilities would reduce Total State Revenue by an amount up to \$19 million.

Oversight has been unable to obtain information from DOR with respect to tax payer compliance with current law and how this would impact the projected revenue reduction.

Oversight notes the DOR estimate of \$19 million at 4.225% implies a sales base of $(\$19,000,000 / .04225) = \$449,704,142$. Oversight also notes this provision would be effective January 1, 2017. For convenience, Oversight will round the sales base to \$450 million and calculate the estimated impact by fund and entity. The results follow.

ASSUMPTION (continued)

		Revenue Reduction	
Fund or entity	Sales Tax Rate	Six months	Full year
General Revenue	3.000%	\$6,750,000	\$13,500,000
Conservation Commission	0.125%	\$281,250	\$562,500
Parks, and Soil and Water	0.100%	\$225,000	\$450,000
School District Trust	1.000%	\$2,250,000	\$4,500,000
Total state	4.225%	\$9,506,250	\$19,012,500
Local governments *	3.880%	\$8,730,000	\$17,460,000
* The 3.88% local sales tax rate is an average calculated by Oversight based on collections reported by the Department of Revenue.			

Oversight assumes the DOR estimate of fiscal impact is the best available estimate and will indicate revenue reductions for this proposal up to the amounts calculated above.

Oversight also notes sales tax revenues in the School District Trust Fund are distributed to local school districts along with other revenues in the fund but will not include those transfers in this fiscal note.

Administrative impact

DOR officials did not include any estimate of administrative impact for this provisions, and **Oversight** assumes this provision could be implemented with existing resources

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would provide sales tax exemptions for fitness facility fees.

B&P officials noted this proposal would exempt charges for instructional classes, training, or membership at a fitness facility, gymnasium, or dance studio from state and local sales tax.

ASSUMPTION (continued)

The B&P response included an estimated fiscal impact as shown in the following table.

Fund or entity	FY 2017	FY 2018	FY 2019
General Revenue	\$6,600,000	\$13,300,000	\$13,300,000
Total State Revenue	\$9,300,000	\$18,700,000	\$18,700,000

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 **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (6 Mo.)	FY 2018	FY 2019
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GENERAL REVENUE FUND

Revenue reduction

Sales tax exemption for fitness centers, etc.	(Up to <u>\$6,750,000</u>)	(Up to <u>\$13,500,000</u>)	(Up to <u>\$13,500,000</u>)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Up to <u>\$6,750,000</u>)	(Up to <u>\$13,500,000</u>)	(Up to <u>\$13,500,000</u>)
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FISCAL IMPACT - State Government
 (continued)

FY 2017
 (6 Mo.)

FY 2018

FY 2019

SCHOOL DISTRICT TRUST FUND

Revenue reduction

Sales tax exemption for fitness centers,
 etc.

(Up to
\$2,250,000)

(Up to
\$4,500,000)

(Up to
\$4,500,000)

**ESTIMATED NET EFFECT ON
 SCHOOL DISTRICT FUND**

(Up to
\$2,250,000)

(Up to
\$4,500,000)

(Up to
\$4,500,000)

**CONSERVATION COMMISSION
 FUND**

Revenue reduction

Sales tax exemption for fitness centers,
 etc.

(Up to
\$281,250)

(Up to
\$562,500)

(Up to
\$562,500)

**ESTIMATED NET EFFECT ON
 CONSERVATION COMMISSION
 FUND**

(Up to
\$281,250)

(Up to
\$562,500)

(Up to
\$562,500)

**PARKS, AND SOIL AND WATER
 FUND**

Revenue reduction

Sales tax exemption for fitness centers,
 etc.

(Up to
\$225,000)

(Up to
\$450,000)

(Up to
\$450,000)

**ESTIMATED NET EFFECT ON
 PARKS, AND SOIL AND WATER
 FUND**

(Up to
\$225,000)

(Up to
\$450,000)

(Up to
\$450,000)

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (6 Mo.)	FY 2018	FY 2019
LOCAL GOVERNMENTS			
<u>Revenue reduction</u>	(Up to	(Up to	(Up to
Sales tax exemption for fitness centers, etc.	<u>\$8,730,000)</u>	<u>\$17,460,000)</u>	<u>\$17,460,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(Up to <u>\$8,730,000)</u>	(Up to <u>\$17,460,000)</u>	(Up to <u>\$17,460,000)</u>

FISCAL IMPACT - Small Business

Small businesses which operate fitness facilities, gyms and dance studios would collect and pay lower sales taxes if this proposal is enacted.

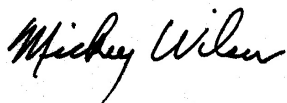
FISCAL DESCRIPTION

This proposal creates a state and local sales and use tax exemption for the amounts paid for classes or membership at a fitness facility, gymnasium, or dance studio. This provision takes effect January 1, 2017.

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 Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State
Joint Committee on Administrative Rules



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