

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4536-06
Bill No.: Truly Agreed To and Finally Passed CCS for HCS for SCS for SB 823
Subject: Internet and E-mail; Taxation and Revenue - Sales and Use; Telecommunications;
 Taxation and Revenue - General; Economic Development
Type: Original
Date: June 17, 2016

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2017 | FY 2018 | FY 2019 |
| General Revenue | \$0 | \$0 | \$0 |
| Total Estimated Net Effect on General Revenue | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2017 | FY 2018 | FY 2019 |
| | | | |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 7 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 | | | |

| 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 to (Unknown) | \$0 to (Unknown) | \$0 to (Unknown) |

FISCAL ANALYSIS

ASSUMPTION

§137.016 - Bed and Breakfast Residential Property

Officials from the **Office of Administration-Division of Budget and Planning (B&P)** assume this section will reduce Total State Revenue by an unknown minimal amount and will impact the calculation under Article X, section 18(e).

Officials from the **Department of Natural Resources (DNR)** assume the proposal would authorize a state and local sales tax exemption for a bed and breakfast inn in which the owner resides and does not exceed the limit of rooms requirement. DNR assumed the Department of Revenue and the Office of Administration-Division of Budget and Planning would provide a more detailed account of the fiscal impact.

Oversight assumes the proposal provides for a property tax reduction for certain owners of bed and breakfast establishments. **Oversight** notes that this proposal will not affect sales tax liability.

Oversight is providing an example of how the real estate taxes will be impacted by this proposal. Assuming the appraised value of a bed and breakfast which qualifies (owner resides and six or fewer rooms to rent) with an appraised value of \$500,000 would have an assessed value as commercial property (32% rate) of \$160,000 and using the average Missouri tax levy of \$5.11 would yield real estate property taxes of \$8,176. The same property reclassified as residential property (19% rate) would have an assessed value of \$95,000 and using the average Missouri tax levy of \$5.11 would yield real estate property taxes of \$4,855 (a reduction of \$3,321).

Oversight notes the reclassification from commercial real estate to residential real estate will reduce real estate taxes on these parcels by 40.625%.

The number of real estate parcels that qualify is unknown. The number of political subdivisions is unknown. The number of political subdivisions that currently operate under their authorized levy ceiling is unknown.

Oversight will show \$0 to (Unknown) as the amount of impact to property tax collections.

ASSUMPTION (continued)

Oversight will assume the impact to the State's Blind Pension Trust Fund (\$0.03 levy) would be immaterial (\$19.50 in example shown above), and will not be reflected in the fiscal note.

Officials from the **Department of Revenue (DOR)**, the **Department of Conservation** the **Joint Committee on Administrative Rules** and the **State Tax Commission** each assume no fiscal impact from the proposal.

§144.026 - Taxpayer Notice

DOR officials assume no fiscal impact.

§144.030 - Internet and Email Access

Oversight notes that the federal Internet Tax Freedom Act was set to expire December 31, 2015; however, it became permanent when President Obama signed the Trade Facilitation and Trade Enforcement Act of 2015 on February 24, 2016. Therefore, Oversight assumes access to the internet is already exempt from taxation, and the changes to Section 144.030 would not have a fiscal impact.

In response to a prior version, officials at the **City of Columbia**, **City of Kansas City**, **Callaway County**, **Cass County**, **St. Louis County**, **Jackson County Election Board**, **Platte County Election Board**, **St. Louis County Election Board** each assumed no fiscal impact from the proposal.

Officials from **OA - Budget and Planning** assume no fiscal impact. B&P noted this proposal would exempt internet and e-mail access from state and local sales and use tax, and further stated these are currently exempt from sales and use tax under federal law. Further, this proposal has no impact on Total State Revenue and is not subject to Article X, 18(e) calculations.

Officials from the **DNR** deferred to DOR and B&P for an account of the fiscal impact.

In response to a prior version, officials at the **City of Independence** assumed a material negative fiscal impact based upon their reading of the language in the proposal.

In response to a previous version, officials from the cities of **Gladstone**, **Grandview**, **Lee's Summit** and **Liberty** each assumed a material negative fiscal impact based upon their reading of the language in the proposal.

Oversight will use the impact statements of DOR, B&P, MDC and DNR as well as the statement from the city of Kansas City, the St. Louis County of Director of Elections, Callaway County,

ASSUMPTION (continued)

Platte County and the Jackson County Election Board as the basis for this fiscal note.

§144.087 - Retail Sales Tax

Officials from **B&P** noted that under current law, retail sales tax applicants must present a bond not more than three times their average monthly liability. This proposal diminishes that amount to no more than twice their average monthly liability. Additionally, the proposal reduces the bond release date from two years to one year.

B&P assumes this proposal could decrease Total State Revenue by an unknown amount, which likely would be minimal.

Officials from the **DOR**, and the **Joint Committee on Administrative Rules** assume no fiscal impact.

Officials from the **Office of the Secretary of State (SOS)** state 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 SOS 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Oversight assumes a "minimal" reduction in General Revenue funds and will not show an amount in this fiscal note from this section.

| | | | |
|--|-----------------------------|-----------------------------|-----------------------------|
| <u>FISCAL IMPACT - State Government</u> | FY 2017 (10 Mo.) | FY 2018 | FY 2019 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>FISCAL IMPACT - Local Government</u> | FY 2017 (10 Mo.) | FY 2018 | FY 2019 |
| LOCAL GOVERNMENTS | | | |
| <u>Revenue Reduction - Bed and Breakfast Property Tax Revenue §137.016</u> | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> | \$0 to <u>(Unknown)</u> |
| ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS | <u>\$0 to (Unknown)</u> | <u>\$0 to (Unknown)</u> | <u>\$0 to (Unknown)</u> |

FISCAL IMPACT - Small Business

Some small businesses engaged in the bed and breakfast business would be impacted by this proposal.

Small businesses which are required to acquire a sales tax bond would be expected to benefit as a result of this proposal.

FISCAL DESCRIPTION

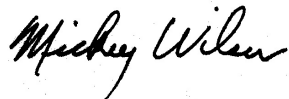
The proposed legislation changes the classification of a bed and breakfast inn in which the owner resides and has six or less rooms for rent from commercial property to residential property for taxation purposes.

The proposed legislation reduces the amount of a sales tax bond required from three times the average monthly sales tax liability to two times the average monthly sales tax liability.

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
Department of Conservation
Department of Natural Resources
City of Kansas City
Cass County
Callaway County
St. Louis County
Platte County Election Board
Jackson County Election Board
St. Louis County Election Board
City of Columbia
City of Gladstone
City of Grandview
City of Independence
City of Lee's Summit
City of Liberty



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June 17, 2016

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June 17, 2016