

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5094-06
Bill No.: HCS for SCS for SB 794
Subject: Health Care; Taxation and Revenue - Sales and Use
Type: Original
Date: May 5, 2016

Bill Summary: This proposal changes the laws regarding taxation related to public nuisances, medical equipment, and retail sales tax licenses.

FISCAL SUMMARY

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
School District Trust	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Conservation Commission	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Parks, Soil & Water	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$300,000)	(Could exceed \$300,000)	(Could exceed \$300,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 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	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)

FISCAL ANALYSIS

ASSUMPTION

§67.410 Public Nuisances

In response to a prior proposal, officials at the **City of Kansas City** assumed a savings should be experienced because posting will replace publication as the final means of notice. The amount of savings cannot be determined since it will be based on the number of failed personal or mail service attempts.

In response to a prior proposal, officials at the **State Tax Commission** assumed no fiscal impact from this proposal.

In response to a prior proposal, officials at **St. Louis County** and the **Callaway County Commission** each assumed no fiscal impact to their respective entities from this proposal.

In response to similar legislation from 2015, SCS for SB 387, officials at the **Platte County Board of Election Commissioners** and the **City of Jefferson** each assumed no fiscal impact to their respective entities from this proposal.

Oversight assumes this proposal modifies provisions required to be in nuisance abatement ordinances enacted by municipalities and counties. Oversight assumes actions by a governing body by ordinance could result in unknown costs to local political subdivisions. Costs to repair and maintain structures that are declared to be a nuisances are to be added to the annual real estate taxes of the property. It is possible that the taxes would not be paid in the same year the costs were expenses to the local political subdivision. Therefore, Oversight will reflect a \$0 or unknown cost for local political subdivisions. Oversight assumes any recovery of real estate taxes will go beyond this fiscal note period and would be an unknown positive.

§144.030 Medical Equipment

Oversight notes that under current law, the initial purchase of qualified medical equipment is exempt from state and local sales tax. Replacement parts under current law are taxable.

Oversight notes this proposal would make replacement parts tax exempt.

ASSUMPTION (continued)

In response to a prior proposal, officials from the **Office of Administration-Division of Budget and Planning (B&P)** assumed the proposal could reduce Total State Revenues (TSR) by less than \$46.9 million and General Revenue by less than \$33.3 million in FY 2018 and thereafter. In FY 2017, TSR will be reduced by less than \$39.2 million and General Revenue by less than \$27.8 million. This proposal will impact the calculation under Article X, Section 18(c).

B&P noted this proposal would exempt all sales, rentals accessories, repairs and parts of durable medical equipment. This proposed exemption would be in addition to other durable medical equipment that is currently exempt from sales tax.

Based on data from the U.S. Bureau of Economic Analysis, in 2014 there were \$64.6 billion in durable therapeutic devices and equipment sold in the U.S. B&P estimates that Missouri's share of this market was \$1.1 billion. However, B&P was not able to determine the amount of the Missouri market that is currently already exempt from sales tax. Therefore, B&P estimates that this proposal will decrease Total State Revenues by less than \$46.9 million (\$1.1 billion x 4.225%) and General Revenue by less than \$33.3 million in FY18 and thereafter. If additional data becomes available, B&P will update this estimate.

Oversight notes that upon additional research, approximately 14% of the Missouri's population is covered by Medicaid, and nationally, approximately 22% of healthcare spending is covered by Medicare. Oversight notes that Medicaid and Medicare are exempt from state and local sales tax. Oversight has adjusted the \$1.1 billion base by 36% to remove the Medicaid and Medicare portion. Oversight notes this new taxable base number of \$704 million does not take into consideration the amount of purchases covered by government employees covered by their employer. Oversight is unable to determine what portion of the \$704 million is for replacement parts. Oversight will show the impact as could exceed \$100,000.

In response to a prior version of the proposal, officials from the **Department of Revenue (DOR)** noted this proposal would not have a fiscal impact to DOR.

In response to a prior version of this proposal, officials from the **Department of Conservation (MDC)** noted this proposal would have a negative fiscal impact of greater than \$100,000 on MDC. MDC assumed the DOR would be better able to estimate the anticipated fiscal impact.

In response to a prior version of this proposal, officials from the **Department of Natural Resources (DNR)** noted that DNR Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax. DNR assumes DOR and B&P will provide an account of the fiscal impact.

ASSUMPTION (continued)

In response to a prior proposal, officials from the **Joint Committee on Administrative Rules** assumed this proposal would not have a fiscal impact to their organization in excess of existing resources.

In response to a prior proposal, officials from the **Office of the Secretary of State (SOS)** assumed 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.

In an earlier version of the proposal, officials from **Mississippi County**, the **Jackson County Election Board**, and the **St. Louis County Director of Elections** indicated they would not realize a fiscal impact if this proposal was enacted.

In response to a prior proposal, officials from the **Platte County Board of Elections** indicated they would not realize a fiscal impact if this proposal was enacted.

In response to a prior proposal, officials from the **City of Kansas City** indicated an unknown loss of revenue will be experienced if this proposal is enacted.

In response to a prior proposal, officials from **St. Louis County** government indicated an unknown loss of revenue will be experienced if this proposal is enacted

§144.087 Sales Tax Bond Requirement

In response to a prior proposal, officials from the **Office of Administration-Division of Budget and Planning (OA-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.

ASSUMPTION (continued)

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

Officials from the **Department of Revenue**, the **Joint Committee on Administrative Rules** and the **Office of the Secretary of State** assume no fiscal impact.

Oversight assumes a “minimal” reduction in General Revenue funds will be absorbable, but will present the reduction in state revenue for fiscal note purposes.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
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GENERAL REVENUE FUND

<u>Revenue Reduction</u> -§144.030 Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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<u>Revenue reduction</u> - §144.087 DOR Sales tax compliance bonds reduction	<u>(Minimal)</u>	<u>(Minimal)</u>	<u>(Minimal)</u>
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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SCHOOL DISTRICT TRUST FUND

<u>Revenue Reduction</u> -§144.030 Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2017 (10 Mo.)	FY 2018	FY 2019
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction - §144.030</u>			
Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
PARKS, AND SOIL AND WATER FUND			
<u>Revenue Reduction - §144.030</u>			
Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2017 (10 Mo.)	FY 2018	FY 2019
LOCAL GOVERNMENTS			
<u>Revenue Reduction - §144.030</u>			
Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to any small business which has retail sales activity or is in the medical device business.

FISCAL DESCRIPTION

Currently, a municipal or county nuisance ordinance must provide notice to the property owner or occupant by personal service or certified mail. This act allows for notice by mail so long as a signature from the recipient is required for delivery. In addition, current law provides that if service cannot be had by personal service or mail, then service may be had by publication. This act replaces service by publication with service by posting.

Currently, upon failure to commence work of reconditioning or demolition within a specified period of a time, a building commissioner shall call a hearing to determine if a building is a nuisance. Under this act, the building commissioner may call a hearing on determining if the building is a nuisance and giving the affected parties 10 days notice of a hearing, except in emergencies. Currently, certain orders regarding nuisance properties issued by the building commissioner or other designated officer are required to be certified by the city clerk or officer in charge of finance. This act provides that the building commissioner or other officer certifies such orders.

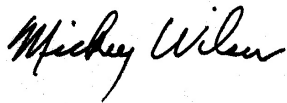
Under this act, the costs the municipality or county incurs in demolishing, repairing, securing, or cleaning the property may be added to the annual real estate tax bill for the property, and must be collected in the same manner as real estate taxes are collected. This act also provides that if the costs are not paid, the tax bill must be considered delinquent and collected in accordance with the laws governing delinquent and back taxes.

This act creates a sales tax exemption for all sales of parts of certain types of medical equipment and changes the amount of bonding required for a retail sales tax license with the Department of Revenue from three to two times the licensee's average monthly tax liability and changes the bond term from two years to one year. .

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 Administration - Budget and Planning
Department of Revenue
Department of Conservation
Joint Committee on Administrative Rules
Office of the Secretary of State
State Tax Commission
Mississippi County
Jackson County
St. Louis County
Platte County Board of Election Commission
Kansas City
Callaway County
Jefferson City



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May 5, 2016

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May 5, 2016