

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0583-01
Bill No.: SB 105
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: February 6, 2017

Bill Summary: This proposal would require the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(\$705,371)	(Less than \$140,930)	(Less than \$99,776)
Total Estimated Net Effect on General Revenue	(\$705,371)	(Less than \$140,930)	(Less than \$99,776)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Streamlined Sales and Use Tax Special	\$0	More than \$4,750,000	More than \$9,500,000
Conservation Commission	\$0	More than \$150,000	More than \$300,000
Parks, and Soil and Water	\$0	More than \$100,000	More than \$200,000
Total Estimated Net Effect on Other State Funds	\$0	More than \$5,000,000	More than \$10,000,000

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	4 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	4 FTE	4 FTE	4 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 2018	FY 2019	FY 2020
Local Government	\$0	More than \$4,257,000	More than \$8,514,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would increase Total State Revenue (TSR) by at least \$10.0 million annually, once fully implemented, and would have an impact on the revenue limitation calculation required by the Missouri Constitution.

This proposal would require the adoption and implementation of the Streamlined Sales and Use Tax Agreement (SSUTA) and would become effective January 1, 2019.

Two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce provide an estimated range of \$108 million (Eisanach & Litan, Feb. 2010) and \$210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

BAP officials noted that remote sellers would be able to remit sales tax under this agreement, and estimate this proposal would generate at least \$10 million in additional TSR annually, of which \$7.1 million would be used to pay anyone providing childcare services under section 208.046. However, the full amount may not be collected during the first year, due to the administrative processes of becoming a full-member state of the SSUTA.

Section 32.070, RSMo.

This section states that any money collected from the Streamlined Sales and Use Tax Agreement Act is to be deposited in the "Streamlined Sales and Use Tax Agreement Special Fund" to make payments to anyone providing childcare under section 208.046. BAP notes that this proposal is called the "Missouri Main Street Fairness Act" and not the "Streamlined Sales and Use Tax Agreement Act". However, for fiscal note purposes, BAP will reflect any generated revenue as being deposited in the special fund.

Section 144.030, RSMo.

This section includes a new exemption for kidney dialysis equipment and enteral feeding systems. BAP notes that this will have a minimal negative impact on TSR.

ASSUMPTION (continued)

Section 144.049, RSMo.

This section would replace the current \$50 per purchase limit on qualifying purchases during the school tax holiday with a \$100 limit. BAP officials assume this would have a minimal negative impact on TSR.

Therefore, BAP officials assume this proposal would increase TSR by at least \$10.0M once fully implemented.

BAP officials provided a table indicating their estimate of fully implemented annual revenues from the proposal.

General Revenue	\$0
SSUTA Special Fund	At least \$7,100,000
Parks, and Soil and Water Funds	At Least \$200,000
Conservation Commission Funds	At Least \$300,000
School District Trust Fund	At Least \$2,400,000
Total State Funds	At Least \$10,000,000
Local Government Funds	At Least \$8,600,000

Officials from the **Department of Revenue (DOR)** provided the following response.

Once fully implemented, the Missouri Main Street Fairness Act is expected to increase sales tax collections and Total State Revenue by an estimated \$5 million in the first year of implementation and \$10 million each year thereafter.

ASSUMPTION (continued)

DOR officials assume the proposal would have a direct fiscal impact on their organization as follows.

Administrative Impact

DOR officials assume Collections and Tax Assistance would require one additional Revenue Processing Technician I (Range 10, Step L) for contacts to the registration section. Each technician would require CARES equipment and license.

In addition, Excise Tax would require two additional Revenue Processing Technicians (Range 10, Step L) for return processing and correspondence.

DOR officials stated they do not envision an FTE impact for the Sales Tax area, but rule writing would create a significant impact for which we would need additional managerial assistance. DOR officials assume one additional Management Analyst Specialist I (Range 23, Step Q) would be required.

DOR officials assume the Integrated Tax System would have additional costs of \$524,160 to implement the provisions of this proposal.

In summary, the DOR estimate of fiscal impact to implement this proposal included costs for personnel, and equipment and expense of \$202,295 for FY 2018, \$209,803 for FY 2019, and \$211,289 for FY 2020, and the IT cost of \$524,160.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional positions 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 also assumes a limited number of additional employees could be accommodated in existing office space. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase DOR costs, resources could be requested through the budget process.

ASSUMPTION (continued)

Oversight was previously provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional \$13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary; and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight will utilize the estimate provided by the Office of Administration - Office of Administration - Budget and Planning of an additional \$10 million in state revenue. For fiscal note purposes only, Oversight will assume a half year of additional revenue for FY 2019 and a full year of additional revenue in FY 2020.

Oversight notes that the proposal would require the deposit of all additional revenue generated by the proposal in the Streamlined Sales and Use Tax Agreement Special Fund and assumes the General Revenue Fund and School District Trust Fund portions of the additional revenue would be deposited into the new fund. The Conservation Commission and Parks, and Soil and Water Funds portions would not be deposited into the special fund since those sales taxes are dedicated under the state constitution.

ASSUMPTION (continued)

Officials from the **University of Missouri - Economic and Policy Analysis Research Center** stated they were not able to provide an estimate of fiscal impact for this proposal.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown positive fiscal impact greater than \$100,000. MDC officials noted the Conservation Sales Tax funds are derived from a one-eighth of one percent sales and use tax pursuant to the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. MDC officials assume the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials from the **Department of Natural Resources (DNR)** did not provide a specific estimate of fiscal impact additional revenue for the proposal but noted the Parks and Soils Sales Tax Funds are derived from a one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any increase in sales tax collected would increase revenue to the Parks and Soils Sales Tax Funds. DNR officials also noted the additional exemptions would reduce the amount of funding available in the Parks and Soils Sales Tax Funds.

According to officials from the **Office of the Secretary of State (SOS)**, 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, 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** state this legislation is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from **Callaway County** stated this proposal would streamline sales and use tax for their organization.

ASSUMPTION (continued)

Officials from the **City of Kansas City** stated that an estimated \$10 million and \$15 million of revenue is lost to untaxed purchases, but did not estimate the specific impact on their organization.

Officials from **Kirksville R-III School District** and the **Warren County R-III School District** assume this proposal would have an unknown impact on their organizations.

Officials from the **Forsyth R-III Schools** assume this proposal would have an unknown negative impact on their organizations.

Officials from **St. Louis County**, the **Everton School District**, and the **West Plains School District** assume this proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

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

Officials the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, 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 school districts: Arcadia Valley R-2, Avilla R-13, Bakersfield, Belton, Benton County R-2, Bismark R-5, Bloomfield R-14, Blue Springs, Bolivar R-I, Bowling Green R-1, Branson, Brentwood, Bronaugh R-7, Campbell R-2, Carrollton R-7, Caruthersville, Cassville R-4, Central R-III, Chilhowee R-4, Chillicothe R-II, Clarkton C-4, Cole R-I, Columbia, Concordia R-2, Crawford County R-1, Crocker R-II, Delta C-7, East Carter R-2, East Newton R-6, Eldon R-I, Fair Grove, Fair Play, Fayette R-3, Fox C-6, Fredericktown R-I, Fulton, Grain Valley, Hancock Place, Hannibal, Harrisonburg R-8, Harrisonville, Hillsboro R-3, Hollister R-5, Humansville R-4, Hurley R-1, Independence, Jefferson City, Kansas City, Kearney R-1, Kennett #39, King City R-1, Kingston 42, Kirbyville R-VI, Kirksville, Lee Summit, Leeton R-10, Lewis County C-1, Lindbergh, Lonedell R-14, Macon County R-1, Macon County R-4, Malta Bend, Mehville, Meramec Valley R-3, Mexico, Middle Grove C-1, Midway R-1, Milan C-2, Moberly, Monroe City R-I, Morgan County R-2, New Haven, Nixa, North St. Francois Co. R-1, Northeast Nodaway R-5, Odessa R-VII, Oregon-Howell R-III, Orrick R-11, Osage County R-II, Osborn R-O, Parkway, Pattonville, Pettis County R-12, Pierce City, Plato R-5, Princeton R-5, Raymore-Peculiar R-III, Raytown, Reeds Springs R-IV, Renick R-5, Richland R-1, Richmond R-XVI, Riverview Gardens, Salisbury R-4, Sarcoux R-2, Scotland County R-I, Sedalia, Seymour R-2, Shelby County R-4, Shell Knob #78, Sikeston, Silex, Smithville R-2, Special School District of St. Louis County, Spickard R-II, Springfield, St Joseph, St Louis, St. Charles, St. Elizabeth R-4, Sullivan, Valley R-6, Verona R-7, Warrensburg R-6, Webster Groves, Westview C-6 and the Wright City R-2 School District did not respond to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
GENERAL REVENUE FUND			
<u>Additional Revenue</u> - DOR 1% collection fee on additional local sales tax	\$0	More than \$43,000	More than \$86,000
<u>Costs</u> - Department of Revenue			
Personal Service	(\$97,702)	(\$117,808)	(\$118,987)
Fringe Benefits	(\$52,431)	(\$63,546)	(\$64,181)
Programming - system changes	(\$524,160)	\$0	\$0
Expense and Equipment	(\$31,078)	(\$2,576)	(\$2,608)
<u>Total Costs</u> - DOR	<u>(\$705,371)</u>	<u>(\$183,930)</u>	<u>(\$185,776)</u>
FTE Change - DOR	4 FTE	4 FTE	4 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$705,371)</u>	<u>(Less than \$140,930)</u>	<u>(Less than \$99,776)</u>
Estimated Net FTE Change for General Revenue	4 FTE	4 FTE	4 FTE
CONSERVATION COMMISSION FUND			
<u>Additional Revenue</u> - Streamlined Sales Tax	<u>\$0</u>	More than <u>\$150,000</u>	More than <u>\$300,000</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>More than \$150,000</u>	<u>More than \$300,000</u>

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020
PARKS, SOIL & WATER FUNDS			
<u>Additional Revenue</u> - Streamlined Sales Tax	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$200,000</u>
ESTIMATED NET EFFECT ON PARKS, SOIL & WATER FUNDS	<u>\$0</u>	More than <u>\$100,000</u>	More than <u>\$200,000</u>
STREAMLINED SALES AND USE TAX AGREEMENT SPECIAL FUND			
Additional Revenue - Streamlined Sales and Use Tax (General Revenue Fund portion)	\$0	More than \$3,550,000	More than \$7,100,000
<u>Additional Revenue</u> - Streamlined Sales and Use Tax (School District Trust Fund portion)	\$0	More than <u>\$1,200,000</u>	More than <u>\$2,400,000</u>
ESTIMATED NET EFFECT ON STREAMLINED SALES AND USE TAX AGREEMENT SPECIAL FUND	<u>\$0</u>	More than <u>\$4,750,000</u>	More than <u>\$9,500,000</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
LOCAL GOVERNMENT FUNDS			
<u>Additional Revenue - Streamlined Sales Tax</u>	\$0	More than \$4,300,000	More than \$8,600,000
<u>Revenue Reduction - DOR 1% collection fee</u>	<u>\$0</u>	More than <u>(\$43,000)</u>	More than <u>(\$86,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT FUNDS	<u>\$0</u>	More than <u>\$4,257,000</u>	More than <u>\$8,514,000</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

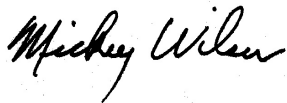
FISCAL DESCRIPTION

The proposed legislation would require the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement.

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
Office of Administration
 Division of Budget and Planning
Department of Revenue
Department of Conservation
Department of Natural Resources
University of Missouri
 Economic and Policy Analysis Research Center
Callaway County
St. Louis County
City of Kansas City
Everton School District
Forsyth R-III School District
Kirksville R-III School District
Warren County R-III School District
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