

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4227-01
Bill No.: SB 679
Subject: Taxation and Revenue - Income, Taxation and Revenue - Sales and Use
Type: Original
Date: January 10, 2018

Bill Summary: This proposal reduces the allowance given to certain taxpayers for the timely remittance of sales and withholding taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$25,700,000	\$30,800,000	\$30,800,000
Total Estimated Net Effect on General Revenue	\$25,700,000	\$30,800,000	\$30,800,000

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Parks, Soil & Water	\$400,000	\$500,000	\$500,000
Conservation Commission	\$500,000	\$600,000	\$600,000
School District Trust	\$4,300,000	\$5,100,000	\$5,100,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$4,800,000	\$5,700,000	\$5,700,000

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	\$31,900,000	\$38,300,000	\$38,300,000

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume §143.261 would reduce the withholding timely filing discount. For businesses with withholdings less than \$5,000, the discount would be reduced from 2% to 1%. For businesses with withholdings between \$5,000 and \$10,000, the discount would be reduced from 1% to 0.5%. For businesses with withholdings greater than \$10,000, the discount would be reduced from 0.5% to 0.25%. Based on information from DOR, in FY 2017 withholding timely filing discounts were \$26.8 million, \$1.9 million, and \$2.3 million for each of the withholding categories. Therefore, B&P estimates that this provision would increase General Revenue by \$12.9 million in FY19 and \$15.5 million in FY20 and thereafter.

Section 144.140 would reduce the sales tax timely filing discount from 2% to 1%. B&P notes that this section only refers to the sales tax timely filing discount and not the use tax timely filing discount. Based on information from DOR, there was \$119.7 million in sales tax timely filing discounts in FY2017. B&P estimates that reducing the discount from 2% to 1% would result in savings of \$59.9 million. Since the timely filing discount is given before any disbursements are made to state and local sales tax funds, B&P estimates that the state portion of the \$59.9 million is approximately 36%, with the remaining funds going to local municipalities. Therefore, B&P estimates that this section will increase Total State Revenue by \$18.0 million and General Revenue by \$12.8 million in FY19. Beginning in FY 2020 and annually thereafter, this section will increase Total State Revenue by \$21.6 million and GR by \$15.3 million. This section will also increase local funds by \$38.3 million once fully implemented.

Therefore, B&P estimates that this proposal will increase Total State Revenue by \$30.9 million (\$12.9 million withholding + \$18 million sales) and General Revenue by \$25.7 million in FY 2019. In FY 2020 and annually thereafter, Total State Revenue could increase by \$37.0 million (\$15.5 million withholding + \$21.6 million sales) and General Revenue could increase by \$30.8 million.

See chart for breakdown amongst funds.

ASSUMPTION (continued)

Fund Affected	FY 2019	FY 2020	FY 2021
General Revenue	\$25,700,000	\$30,800,000	\$30,800,000
Parks, Soil & Water	\$400,000	\$500,000	\$500,000
Conservation	\$500,000	\$600,000	\$600,000
School District Trust	\$4,300,000	\$5,100,000	\$5,100,000
Total State Funds	\$30,900,000	\$37,000,000	\$37,000,000
Local Funds	\$31,900,000	\$38,300,000	\$38,300,000

Officials at the **Department of Revenue (DOR)** assume this proposed legislation would reduce the allowance given to certain taxpayers for timely remittance of sales and withholding tax. This may lead to an estimated \$37.0 million increase to state revenues. In FY 2017 there were \$119.8 million in sales tax timely filing discounts, and an estimated \$30.9 million in timely remittance withholding tax discounts. This proposed legislation would reduce the two discounts by half, increasing state revenues by \$37.0 million once fully implemented in FY 2020.

Current Discount	FY17 Actual	Proposed Discount	Fully Implemented Savings
Total Sales Tax @ 2%	\$119,815,665.81	Sales Tax @ 1%	\$59,907,832.91
Withholding			
\$5K & Below @ 2%	\$26,757,471.98	\$5K & Below @ 1%	\$13,378,735.99
\$5K-10K @ 1%	\$1,880,508.88	\$5K-10K @ .5%	\$940,254.44
\$10K+ @ .5%	\$2,320,068.28	\$10K+ @ .25%	\$1,160,034.14

Oversight notes that using DOR's number from 2017, the total timely remittance discounts were \$150.7 million (\$119.8 + 30.9). The bill reduces all discounts by half; therefore, this should reduce the discounts by \$75.35 million (\$150.7 / 2). The annual total of the impact reflected in the fiscal note is \$75.3 million (\$30.8 million + \$.5 million + \$.6 million + \$5.1 million + \$38.3 million).

Oversight notes that the elimination of the sales and use timely filing discount in §144.140 would result in several state funds receiving money as well as local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Additional Revenue</u> - elimination of the withholding timely filing discounts §143.261	\$12,900,000	\$15,500,000	\$15,500,000
<u>Additional Revenue</u> - elimination of the sales tax timely filing discounts §144.140	<u>\$12,800,000</u>	<u>\$15,300,000</u>	<u>\$15,300,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$25,700,000</u>	<u>\$30,800,000</u>	<u>\$30,800,000</u>
 PARKS, SOIL & WATER FUND			
<u>Additional Revenue</u> - elimination of the sales tax timely filing discount §144.140	<u>\$400,000</u>	<u>\$500,000</u>	<u>\$500,000</u>
ESTIMATED NET EFFECT ON PARKS, SOIL & WATER FUND	<u>\$400,000</u>	<u>\$500,000</u>	<u>\$500,000</u>
 CONSERVATION COMMISSION FUND			
<u>Additional Revenue</u> - elimination of the sales tax timely filing discount §144.140	<u>\$500,000</u>	<u>\$600,000</u>	<u>\$600,000</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUNDS	<u>\$500,000</u>	<u>\$600,000</u>	<u>\$600,000</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
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SCHOOL DISTRICT TRUST FUND

Additional Revenue - elimination of the sales tax timely filing discount §144.140

<u>\$4,300,000</u>	<u>\$5,100,000</u>	<u>\$5,100,000</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND

<u>\$4,300,000</u>	<u>\$5,100,000</u>	<u>\$5,100,000</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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LOCAL POLITICAL SUBDIVISION FUNDS

Additional Revenue - elimination of the sales tax timely filing discount §144.140

<u>\$31,900,000</u>	<u>\$38,300,000</u>	<u>\$38,300,000</u>
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION FUNDS

<u>\$31,900,000</u>	<u>\$38,300,000</u>	<u>\$38,300,000</u>
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FISCAL IMPACT - Small Business

Small businesses that could retain the sales tax could be negatively impacted.

FISCAL DESCRIPTION

Current law allows for a seller to retain two percent of the amount of sales taxes due to the Department of Revenue if such seller remits such sales taxes on or before the due date. This act reduces the allowance to one percent.

Current law also allows for an employer to retain one-half, one, or two percent of withholding taxes due to the Department of Revenue if such employer remits such withholding taxes on or

FISCAL DESCRIPTION (continued)

before the due date. This act reduces the allowance to one-quarter, one-half, or one percent, depending on the amount of withholding tax remitted.

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
Division of Budget and Planning

Ross Strobe



Acting Director
January 10, 2018