

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5722-02
Bill No.: HCS for SB 884
Subject: Taxation and Revenue - Sales and Use; Licenses - Miscellaneous, Taxation and Revenue - General, Department of Revenue, Political Subdivisions
Type: Original
Date: May 2, 2018

Bill Summary: This proposal changes the law regarding taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2022)
General Revenue	Could exceed \$719,940 to (Unknown)	Could exceed \$863,928 to (Unknown)	Could exceed \$863,928 to (Unknown)	(Could exceed \$2,136,072)
Total Estimated Net Effect on General Revenue	Could exceed \$719,940 to (Unknown)	Could exceed \$863,928 to (Unknown)	Could exceed \$863,928 to (Unknown)	(Could exceed \$2,136,072)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 15 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2022)
Conservation Commission	\$30,420	\$36,504	\$36,504	\$36,504
Parks, Soil & Water	\$20,305	\$24,336	\$24,336	\$24,336
School District Trust	\$243,360	\$292,032	\$292,032	\$292,032
Total Estimated Net Effect on <u>Other</u> State Funds	\$294,085	\$352,872	\$352,872	\$352,872

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2022)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2019	FY 2020	FY 2021	Fully Implemented (FY 2022)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2022)
Local Government	Could exceed \$1,000,000 to (Unknown)	Could exceed \$1,000,000 to (Unknown)	Could exceed \$1,000,000 to (Unknown)	Could exceed \$1,000,000 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

§66.390 - §67.662, §67.5110, §144.020 Residential Dwelling Rentals

Officials at the **Department of Revenue (DOR)** assume §144.020 provides a tax equivalent to four percent on the amount of sales or charges for all rooms, meals, and drinks furnished at any hotel, motel, tavern, inn, restaurant, eating house, drugstore, dining car, tourist cabin, tourist camp, residential dwelling rental as defined under §67.5110, or other place in which rooms, meals or drinks are regularly served to the public.

The four percent is statutory (3% GR, 1% Education) is statutory while the other .225% (split out amongst conservation and parks and soils) is the full 4.225% sales tax imposed within this proposed legislation.

This proposed legislation could potentially increase state revenues by an estimated \$1,216,800 each fiscal year. Between the Clayton Times and STL Today, it was estimated that residential dwelling rentals (AirBnB) earned an approximate \$28.8 million in Missouri. Subsequently, if the state were to require such rentals have sales tax paid, collected, and remitted, the Department estimates \$1,216,800 would be added to state revenues. \$28.8 million X 4.225% = \$1,216,800.

Fund	Impact		
	FY 2019	FY 2020	FY 2021
General Revenue	\$863,928	\$863,928	\$863,928
Conservation	\$36,504	\$36,504	\$36,504
Education	\$292,032	\$292,032	\$292,032
Parks and Soils	\$24,336	\$24,336	\$24,336
Total	\$1,216,800	\$1,216,800	\$1,216,800

Officials at the **State Tax Commission**, the **Department of Health and Senior Services**, the **Department of Insurance, Financial Institutions and Professional Registration** and the **Department of Labor and Industrial Relations** each assume there is no fiscal impact from this proposal.

Utilizing DOR's estimates, **Oversight** will assume a potential increase in local sales tax of approximately \$1,000,000 (3.5% sales tax rate - for a combined rate of 7.725%) per year.

ASSUMPTION (continued)

Oversight assumes local political subdivisions could also collect sales tax revenue from residential dwelling rentals and could also experience a loss in revenue from licensing fees. Oversight assumes the potential sales tax revenues collected from the rentals would outweigh the revenues loss from the licensing fees. Therefore, Oversight will reflect a positive impact to local political subdivisions from this proposal. Using DOR's estimates, Oversight assumes local tax collections could exceed \$1,000,000 per year.

§67.1153 -§67.1158 Sports Authorities

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal modifies provisions related to tax levies by a county for a county convention and sports facilities authority. The new language grants the county the ability to enter into an agreement with the authority to collect the tax. It also changes the interest and penalties calculation.

If the county convention and sports facility authority collects the tax rather than DOR, this proposal could decrease total state revenues through reduced DOR collection fees. The proposal will not impact the calculation under Article X, Section 18(e).

§67.1360 Transient Guest Tax

Officials at the **B&P** assume this proposal adds residential dwelling rentals to the list of items that the city or county could impose a tax on; however, since these taxes are subject to voter approval there is no Total State Revenue or 18(e) impact.

§67.3000 Amateur Sporting Ticket Sales and the §67.3005 Amateur Sporting Contribution

Officials at the **B&P** assume this proposal makes multiple changes to the sports contribution tax credit. It expands the credit to additional college level sporting events, it expands the credit to participant-based events, requires the actual number of tickets or participants to be used when determining the credit amount, and it extends the sunset date from 2018 to 2030.

In addition, B&P notes that this proposal limits the tax credits to \$2,700,000, per year, for Jackson County, St. Louis County, and St. Louis City. This could increase Total State Revenue and General Revenue if this reduces the amount of credits that would otherwise have been awarded.

This proposal may increase Total State Revenue. This proposal may impact the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

Officials at the **Department of Economic Development (DED)** assume that it amends the Sporting Event Tax Credit to include “collegiate” events. It makes other changes but leaves the cap on the program at \$2.7 million annually. It extends the sunset from 2018 to 2030. The impact will be \$2.7 million annually starting FY 2019. DED will need to hire one Economic Development Incentive Specialist III (\$53,136) to administer the program.

Oversight notes this proposal extends the sunset on an existing program and expands the credit to allow \$10 for every paid participant registration. However, the cap on the program is unchanged. DED should be able to absorb the duties of the proposal with existing resources.

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Amateur Sporting Ticket Sales tax credit program (§67.3000) had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	6	3	15	10	10
Projects	8	3	15	10	10
Amount Authorized	\$728,708	\$942,800	\$5,296,200	\$2,200,000	\$1,800,000
Amount Issued	\$585,735	\$237,050	\$2,175,700	\$2,035,825	\$1,500,000
Amount Redeemed	\$38,610	\$17,800	\$1,316,815	\$500,000	\$500,000

Amount Outstanding - \$1,078,135 Amount Authorized but Unissued - \$3,918,305

Oversight notes this proposal would extend this tax credit from August 28, 2019 to August 28, 2030. This credit is given for 100% of eligible costs or \$5 per admission ticket. This tax credit has a \$3 million annual cap. This proposal places a limit on all events located in certain areas of the state of \$2.7 million of the total. Per Oversight fiscal note policy, the fiscal note will reflect the extension of this tax credit starting in FY 2022.

Oversight notes that this tax credit requires approval of the sports contract prior to the event being held. Once the event is held and costs are submitted to the agency the credits are issued. Due to the lag time between authorization and issuance of these credits, Oversight assumes the extension of the credit would begin in FY 2022.

ASSUMPTION (continued)

Oversight notes according to the Tax Credit Analysis submitted by the Department of Economic Development regarding this program, the Amateur Sporting Contribution tax credit (§67.3005) program had the following activity;

	FY 2015	FY 2016	FY 2017	FY 2018 (projected)	FY 2019 (projected)
Certificates Issued	7	0	13	7	7
Projects	7	0	13	7	7
Amount Authorized	\$14,000	\$20,000	\$18,750	\$20,000	\$20,000
Amount Issued	\$14,000	\$0	\$39,250	\$20,000	\$20,000
Amount Redeemed	\$0	\$0	\$12,500	\$15,000	\$15,000

Amount Outstanding - \$40,750 Amount Authorized but Unissued - \$110,000

Oversight notes this tax credit is a prepay credit. A person makes a donation to an eligible organization and half the payment is sent to the state by the organization. Upon receipt of the payment by the State, the tax credit is issued. Oversight notes that since the payment is received in advance of the issuance of the tax credit, extending this credit would not fiscally impact the State.

§143.451 Intercompany Transactions

Officials at the **B&P** assume this section states that sales and business transactions shall not include intercompany transactions between corporations that file a consolidated return. B&P notes that under this section some corporations filing a consolidated return may have a positive impact on their tax liability, while others may have a negative impact to their tax liability. B&P is unable to determine which impacts, in the aggregate, would be greater. Therefore, due to these data limitations, BAP cannot estimate an exact impact from this language. However, this amendment may have an unknown impact on Total State Revenue and General Revenue.

§144.087 Retail Sales Licenses

Officials from the **DOR** and **B&P** each assume the proposal would not have a fiscal impact.

§148.720 Corporate Income Tax

Officials at the **B&P** assume this section would reduce the financial taxes paid by banks, credit unions, and savings and loan institutions in the event that the corporate tax rate under Section 143.071 was reduced. The financial tax rates are to be reduced by an amount proportional to any tax rate reductions in Section 143.071. B&P notes that the current tax rate for financial institutions is 7%. B&P further notes that 2% of collections are deposited into General Revenue while the remaining collections are distributed to locals.

ASSUMPTION (continued)

B&P estimates that this section would reduce Total State Revenue and General Revenue if the corporate tax rate were reduced in the future. However, there is currently no such reduction scheduled.

Officials at the **DOR** assume this proposed section provides that, if the corporate income tax rate is reduced, the financial institutions tax rate shall be reduced proportionally. Currently, the financial institutions tax rate is at 7%. The tax is distributed 98% to locals and 2% to General revenue. This legislation would have no impact on the Department.

Oversight notes this proposal does not make changes to the corporate income tax rate (currently 6.25 percent §143.071). Section 148.720 states that if the corporate tax rate changes, the tax rates on financial institutions will change proportionally. Oversight has prepared fiscal notes on several bills this year that changed the corporate income tax rate, to various different rates. However, without knowing what the corporate tax rate change (if any) is proposed, Oversight will reflect an unknown loss of revenue to the state and local funds, dependent upon the corporate tax rate change.

Section 1

Officials at the **B&P** assume this section states that any entity not subject to the corporate income tax will not have to file documents related to the corporate income tax. B&P notes that while insurance companies may be corporations, they pay a premium tax and not the corporate income tax. B&P estimates that this section will not impact Total State Revenue or the calculation under Article X, Section 18(e).

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2022)
GENERAL REVENUE				
<u>Additional Revenue</u>				
DOR - sales tax on residential dwelling rentals §144.020	\$719,940	\$863,928	\$863,928	\$863,928
<u>Revenue -</u>				
corporations income tax filing changes §143.451	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
<u>Revenue Reduction -</u>				
extension of the Amateur Sporting Ticket Sales tax credit sunset date §67.3000	\$0	\$0	\$0	(Up to \$3,000,000)
		\$0 or (Unknown) - dependent upon a change to the corporate tax rate in <u>§143.071</u> , if <u>any</u>	\$0 or (Unknown) - dependent upon a change to the corporate tax rate in <u>§143.071</u> , if <u>any</u>	\$0 or (Unknown) - dependent upon a change to the corporate tax rate in <u>§143.071</u> , if <u>any</u>
<u>Loss - Reduction in Financial Institution Taxes (§148.720)</u>	<u>\$0</u>			
ESTIMATED NET EFFECT ON GENERAL REVENUE	Could exceed \$719,940 to <u>(Unknown)</u>	Could exceed \$863,928 to <u>(Unknown)</u>	Could exceed \$863,928 to <u>(Unknown)</u>	(Could Exceed <u>\$2,136,072</u>)

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2022)
 CONSERVATION COMMISSION FUND				
<u>Additional Revenue</u>				
DOR -sales tax on residential dwelling rentals §144.020	<u>\$30,420</u>	<u>\$36,504</u>	<u>\$36,504</u>	<u>\$36,504</u>
 ESTIMATED NET EFFECT ON THE CONSERVATION COMMISSION FUND				
	<u>\$30,420</u>	<u>\$36,504</u>	<u>\$36,504</u>	<u>\$36,504</u>
 PARKS, SOIL AND WATER				
<u>Additional Revenue</u>				
DOR - sales tax on residential dwelling rentals §144.020	<u>\$20,305</u>	<u>\$24,366</u>	<u>\$24,366</u>	<u>\$24,366</u>
 ESTIMATED NET EFFECT ON THE PARKS, SOIL AND WATER FUND				
	<u>\$20,305</u>	<u>\$24,366</u>	<u>\$24,366</u>	<u>\$24,366</u>

FISCAL IMPACT -
State Government
(continued)

FY 2019
(10 Mo.)

FY 2020

FY 2021

Fully
Implemented
(FY 2022)

**SCHOOL
DISTRICT TRUST
FUND**

Additional Revenue
DOR - sales tax on
residential dwelling
rentals §144.020

\$243,360

\$292,032

\$292,032

\$292,032

**ESTIMATED NET
EFFECT ON THE
SCHOOL
DISTRICT TRUST
FUND**

\$243,360

\$292,032

\$292,032

\$292,032

**FISCAL IMPACT -
 Local Government**

	FY 2019 (10 Mo.)	FY 2020	FY 2021	Fully Implemented (FY 2022)
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**LOCAL
 POLITICAL
 SUBDIVISIONS**

Additional Revenue

sales tax on residential dwelling rentals §144.020	Could exceed \$1,000,000	Could exceed \$1,000,000	Could exceed \$1,000,000	Could exceed \$1,000,000
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Additional Revenue

tourism and other taxes on residential dwelling rentals	Unknown	Unknown	Unknown	Unknown
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Loss - in business

license revenue	(Unknown)	(Unknown)	(Unknown)	(Unknown)
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	\$0 or (Unknown) - dependent upon a change to the corporate tax rate in §143.071, if any	\$0 or (Unknown) - dependent upon a change to the corporate tax rate in §143.071, if any	\$0 or (Unknown) - dependent upon a change to the corporate tax rate in §143.071, if any
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<u>Loss - Reduction in Financial Institution Taxes (§148.720)</u>	\$0			
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**ESTIMATED NET
 EFFECT ON**

LOCAL POLITICAL SUBDIVISIONS	Could exceed \$1,000,000 to <u>(Unknown)</u>	Could exceed \$1,000,000 to <u>(Unknown)</u>	Could exceed \$1,000,000 to <u>(Unknown)</u>	Could exceed \$1,000,000 to <u>(Unknown)</u>
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FISCAL IMPACT - Small Business

This legislation could potentially impact any small businesses that rent rooms within residential dwellings.

FISCAL DESCRIPTION

This act modifies several provisions relating to taxation.

RESIDENTIAL DWELLING RENTALS - This act provides a definition for "residential dwelling rental", which shall be a single residential dwelling or any part thereof offered for rent to transient guests, as defined in the act. The act requires the owner of a residential dwelling rental, or a property manager or facilitation platform on behalf of the owner, to collect and remit any applicable sales tax, hotel tax, or any other transient guest tax, as described in the act.

If a facilitation platform collects and remits the tax on behalf of an owner, such platform shall enter into an agreement with the Department of Revenue and any political subdivision with taxing authority to collect and remit such tax. If an owner maintains responsibility for remitting the tax, the owner shall obtain a certificate of no tax due and a retail sales tax license prior to advertising a residential dwelling rental on a platform or prior to renting a residential dwelling rental to a transient guest. (§67.5110)

This act also modifies several transient guest taxes to include residential dwelling rentals in the types of facilities to which the tax applies. (Sections 66.390, 66.500, 67.180, 67.662, 67.1360, 92.327, 92.331, 94.005, 144.020)

This act modifies provisions relating to the St. Charles County Convention and Sports Facilities Authority. Current law prohibits elected or appointed officials of any political subdivision from being a commissioner on the Authority. This act allows appointed officials to be commissioners. (§67.1153)

This act also allows St. Charles County to enter into an agreement with the Authority for the Authority to collect and perform all functions incident to the administration, collection, enforcement, and operation of the transient guest tax imposed by the county.

The tax shall be due on the first day of the following calendar quarter, and the Authority shall collect a penalty of one percent per month, and interest of two percent per month on taxes that are not paid by thirty days after the last day of each quarter.

This act requires, rather than allows, the Authority to file and prosecute suits to enforce the collection and payment of the transient guest tax. The act also requires, rather than allows, the Authority to recover damages, including litigation expenses.

This act provides definitions for the terms hotel, motel, sleeping rooms, taxed facility, temporary, and transient guest. (§67.1158)

FISCAL DESCRIPTION (continued)

AMATEUR SPORTING EVENT TAX CREDIT - This act modifies several provisions related to tax credits for amateur sporting events.

The definition of "eligible costs" is modified to include bid fees and financial guarantees pledged to a site selection organization. The definition of "site selection organization" is also modified to include several additional organizations, as described in the act.

Currently, an applicant is required to submit eligible costs and documentation to the Department of Economic Development no more than thirty days following the conclusion of the sporting event. This act changes such deadline to ninety days. Documented eligible costs paid may be paid either by the applicant or an entity co-hosting the event with the applicant.

This act requires, rather than allows, the Department of Economic Development to determine the total number of tickets sold to the event, or, if such event is participant-based with no admission tickets, the total number of paid participant registrations.

This act also requires, rather than allows, the Department to issue a tax credit pursuant to the provisions of the program. For the purposes of calculating the amount of the tax credit, an applicant shall be allowed \$10 for every paid participant registration if the event is participant-based with no paid admission tickets.

The aggregate amount of tax credits issued under this program is limited to \$3 million per fiscal year. This act implements a fiscal year cap of \$2.7 million for all events located in Jackson or St. Louis Counties or St. Louis City.

Collegiate football bowls and other neutral-site games with at least one out-of-state team shall be exempt from the competitive bid requirements of the program.

Currently the Department is prohibited from accepting applications for this tax credit program after August 28, 2019. This act extends the program until August 28, 2030. (§67.3000)

This act also extends the sunset for a tax credit for contributions to a local organizing committee or certified sponsor from August 28, 2019, to August 28, 2030. (§67.3005)

CORPORATE INCOME APPORTIONMENT - This act provides that intercompany transactions between corporations that file a consolidated return shall not be included in the definition of sales for the purposes of income apportionment. (§143.451)

FISCAL DESCRIPTION (continued)

RETAIL SALES LICENSES - Current law requires the Director of Revenue to require all applicants for a retail sales license and all current licensees in default in filing a return and paying taxes due to file a bond with the Director. This act allows, rather than requires, the Director to request such a bond. The act also removes the ability of the Director to request such a bond from a retail sales license applicant. (§144.087)

FINANCIAL INSTITUTIONS TAX - Current law allows certain financial institutions to receive a credit against the financial institutions tax for any corporate income tax paid. This act provides that, if the corporate income tax rate is reduced, the financial institutions tax rate shall be reduced proportionally. (§148.720)

CORPORATE INCOME TAX RETURNS - This act provides that entities not subject to corporate income taxes shall not be required to complete or file any document or return related to corporate income taxes. (Section 1)

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 Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Labor and Industrial Relations
Department of Revenue
Office of Administration
Division of Budget and Planning
State Tax Commission

Ross Strope



Acting Director
May 2, 2018