

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 6116-01
Bill No.: SB 1003
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 5, 2018

Bill Summary: This proposal exempts certain initiation fees and dues from sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 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	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** assume this legislation appears to have a minimal negative impact. Based on Department records, there are approximately 268 501(c)(7) organizations registered in Missouri. Out of those 268 entities, 10 remit sales tax to the Department.

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would create a sales tax exemption for initiation or membership fees to any non-profit organization that is designated as a 501(c)(7) for federal income tax purposes.

Based on data from the US Census Bureau, there were 333 businesses that could qualify with total membership fees of \$102.7 million in 2002, the most recent year data is available. Adjusting for inflation from 2002 through 2017, B&P estimates that membership fees could total \$140.0 million in 2017 dollars. B&P notes, however, that some of these businesses may already have sales tax exemptions granted by DOR. Therefore, B&P estimates that this proposal could reduce Total State Revenue by less than \$5.9 million and General Revenue by less than \$4.2 million annually.

This proposal will impact the calculation under Article X, Section 18(e).

Oversight notes this proposal would exempt from sales tax non-profit organizations exempt from taxation under Section 501(c)(7) of the IRS Code of 1986. The IRS defines 501(c)(7) as social clubs and can include the following:

- College social/academic fraternities and sororities
- Country clubs
- Amateur hunting, fishing, tennis, swimming and other sport clubs
- Dinner clubs that provide a meeting place library, and dining room for members
- Variety clubs
- Hobby clubs
- Homeowners or community associations whose primary function is to own and maintain recreational areas and facilities.

Oversight assumes that since DOR is the administrator of the sales tax and was able to pull data on existing 501(c)(7) organizations, that their information may be more accurate. Oversight notes that the sales tax does impact General Revenue, the School District Trust Fund, the Conservation Commission Fund, the Parks, Soil & Water Fund as well as Local Political Subdivisions. Based on DOR's response, Oversight will not show an impact from this proposal.

ASSUMPTION (continued)

Officials at the **Department of Natural Resources** assume the Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, any additional sales and use tax exemptions could be a loss to the Parks and Soils Sales Tax Funds.

Providing state sales and use tax exemptions as stated in this proposal could decrease the amount of funding available in the Parks and Soils Sales Tax Funds. These funds have been used for the development, maintenance and operation of state parks and historic sites and to assist agricultural landowners through voluntary programs.

The Department assumes the Department of Revenue would be better able to estimate a more detailed account of the fiscal impact.

Officials at the **Department of Conservation** assume an unknown fiscal impact on the Department but expected to be greater than \$100,000. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act exempts nonprofit organizations exempt from taxation under Section 501(c)(7) of the Internal Revenue Code of 1986 from sales and use taxes on charges for initiation fees or dues.

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 Conservation
Department of Natural Resources
Department of Revenue
Office of Administration
Division of Budget and Planning

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Acting Director
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