

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0265-02
Bill No.: SB 50
Subject: Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: January 28, 2019

Bill Summary: This proposal modifies sales tax collection requirements for certain sellers and reduces the top income tax rate.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2029)
General Revenue*	Unknown to (Unknown) or \$31,058,592 to \$48,558,592	Unknown to (Unknown) or \$66,646,430 to \$93,246,430	Unknown to (Unknown) or \$47,929,814 to \$51,829,814	(Unknown to (Unknown) or (\$242,691,431 to \$279,491,431)
Total Estimated Net Effect on General Revenue	Unknown to (Unknown) or \$31,058,592 to \$48,558,592	Unknown to (Unknown) or \$66,646,430 to \$93,246,430	Unknown to (Unknown) or \$47,929,814 to \$51,829,814	(Unknown to (Unknown) or (\$242,691,431 to \$279,491,431)

* Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 28 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2029)
School District Trust	Unknown to (Unknown) or \$11,000,000 to \$16,900,000	Unknown to (Unknown) or \$22,900,000 to \$35,000,000	Unknown to (Unknown) or \$24,400,000 to \$37,300,000	Unknown to (Unknown) or \$29,400,000 to \$42,900,000
Conservation Commission	Unknown to (Unknown) or \$1,400,000 to \$2,100,000	Unknown to (Unknown) or \$2,900,000 to \$4,400,000	Unknown to (Unknown) or \$3,100,000 to \$4,700,000	Unknown to (Unknown) or \$3,700,000 to \$5,400,000
Park, Soil & Water	Unknown to (Unknown) or \$1,100,000 to \$1,700,000	Unknown to (Unknown) or \$2,300,000 to \$3,500,000	Unknown to (Unknown) or \$2,400,000 to \$3,700,000	Unknown to (Unknown) or \$2,900,000 to \$4,300,000
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown to (Unknown) or \$13,500,000 to \$20,700,000	Unknown to (Unknown) or \$28,100,000 to \$42,900,000	Unknown to (Unknown) or \$29,900,000 to \$45,700,000	Unknown to (Unknown) or \$36,000,000 to \$52,600,000

* Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2029)
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 2020	FY 2021	FY 2022	Fully Implemented (FY 2029)
General Revenue	33 FTE	33 FTE	33 FTE	33 FTE
Total Estimated Net Effect on FTE	33 FTE	33 FTE	33 FTE	33 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 2020	FY 2021	FY 2022	Fully Implemented (FY 2029)
Local Government	Unknown to (Unknown) or \$26,700,000 to \$40,800,000	Unknown to (Unknown) or \$55,500,000 to \$84,700,000	Unknown to (Unknown) or \$59,100,000 to \$90,300,000	Unknown to (Unknown) or \$71,100,000 to \$103,900,000

*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

FISCAL ANALYSIS

ASSUMPTION

INDIVIDUAL SECTION CALCULATIONS

§144.021, §144.530, §144.535, §144.565, §144.545, §144.555, §144.565, and §144.575 Online Sales Tax

Officials at the **Office of Administration Division of Budget and Planning (B&P)** will address the response for these sections together as one "online sales tax" impact. B&P will also show the impact from these sections before listing the impacts for §143.011 as the online sales tax estimates directly impact the income tax reduction estimates.

Online sales tax collection requires retailers that do not have a physical presence within Missouri to collect and remit sales tax on purchases delivered into Missouri beginning January 1, 2020. Only retailers with gross revenue greater than \$100,000 from deliveries or retailers with at least 200 separate transactions into Missouri would be required to collect Missouri sales tax. (§144.021)

Section 144.530 contains definitions for the newly created "Simplified remote sales tax remittance program". Section 144.535 creates the voluntary program. Section 144.565 states that the program is voluntary and will not subject a participating retailer to other tax types (such as income tax) levied in Missouri. The program shall be administered by Department of Revenue (DOR). DOR is to develop and make available an easily accessible online system for participating retailers. DOR is allowed to revoke participation in the sales tax program. Section 144.575 defines market place facilitators and states that a facilitator counts as one seller. Starting January 1, 2020 market place facilitators that reach the sales thresholds outlined under §144.021 must register with DOR and begin remitting sales tax on behalf of individual marketplace sellers. B&P notes that this provision would apply to retailers such as Amazon's market place, ETSY, EBAY, etc.

Section 144.540 states that the sales tax rate for retailers participating in the program is 6.5% on tangible personal property and 3.5% on food sold or delivered into Missouri. B&P notes that the state sales tax rate on tangible personal property is 4.225%, while the state sales tax rate on food is 1.225%. B&P further notes that in 2018, the population weighted local sales tax rate was 3.86% for both food and tangible personal property. Section 144.540 states that retailers participating in the program will not be required to collect local sales taxes in excess of the combined tax rates of 6.5% and 3.5%. In addition, consumers will NOT be responsible for remitting any local use tax on purchases from a participating retailer. Section 144.545 allows purchaser who pays the simplified remote sales tax to apply for a refund if the actual amount of sales tax collected was greater than what should have been paid under the simplified remote sales

ASSUMPTION (continued)

tax rate (6.5% or 3.5%).

Section 144.555 states that the sales taxes collected under the program shall be distributed by a formula determined by DOR. The manner of distribution to localities shall also be determined by DOR. B&P notes that under Section 144.540, the simplified sales tax rate 6.5% on tangible personal property and 3.5% on food is lower than the combined state sales tax rate (4.225% or 1.225%) and the population weighted average local sales tax rate (3.86%).

For the purpose of this fiscal note, B&P assumes that under these sections the state would collect 4.225% on tangible personal property and 1.225% on food sales for state funds leaving a sales tax rate of 2.275% for localities. (6.5% new state rate - 4.225% current rate = 2.275% new local rate)

Online Sales Tax Collection Estimates Summary

B&P and the **DOR** worked together to estimate the potential revenue gains from the U.S. Supreme Court Wayfair decision, which overturned the Quill decision and held that states may charge a tax on purchases made from out-of-state sellers, even if the seller doesn't have a physical presence in the taxing state. In November 2017, the U.S. Government and Accountability Office (GAO) released a state-by-state estimate for potential revenue gains if the 1992 Quill decision were overturned during the Wayfair case. In the report, the GAO estimated that Missouri could gain \$180 million to \$275 million in state and local sales taxes during 2017 from e-commerce sales tax revenue. B&P notes that there were three limitations to the study which B&P and DOR attempted to address by further refining the GAO estimates.

At the time of the study, the GAO did not remove the sales of digital downloads from the state and local estimates due to data limitations and different tax treatments across states. B&P notes that digital downloads are currently exempt from sales tax under Missouri law. B&P and DOR were able to find limited studies on the e-commerce market share for such sales. The studies indicated that digital downloads account for approximately 14.1% of all e-commerce sales. B&P and DOR then reduced the original GAO estimates by that 14.1%.

The GAO provided a point-in-time estimate for potential state and local revenue gains during 2017. This estimate, though, does not account for anticipated growth in e-commerce sales. To address this, B&P and DOR adjusted the GAO estimate to incorporate e-commerce sales growth for tangible personal property from 2018 through 2022. Only growth for e-commerce sales of tangible personal property were used, rather than growth in the full e-commerce market, in order to accurately reflect growth in the online sales tax base. B&P notes that using growth in the full e-commerce market would overestimate the sales tax base as services and digital download

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products are not currently taxable in Missouri. In order to project sales tax revenue growth beyond 2022, B&P and DOR used the rate of growth change from 2018 through 2022 and the five year average General Revenue sales tax growth to estimate potential sales tax growth from 2023 through 2027, when the income tax changes in §143.011 would be fully implemented.

At the time of the study, the GAO did not incorporate potential in-state sales or in-state transaction requirements that would limit the companies required to comply with e-commerce sales tax collections. Using data published by the U.S. Census Bureau and industry reports, B&P and DOR were able to estimate the percent of sales that would remain taxable if Missouri instituted an in-state sales threshold of \$100,000. If Missouri were to enact a \$100,000 in-state sales threshold, B&P and DOR estimate that approximately 86.7% of all e-commerce sales would remain taxable. B&P and DOR used this estimate to further adjust the GAO provided revenue estimate.

B&P and DOR were unable to estimate the impact from a potential in-state transaction requirement. B&P notes that the majority of states are currently enacting e-commerce sales tax requirements of \$100,000 in in-state sales or 200 in-state transactions.

B&P and DOR estimate that the online sales tax sections could increase Total State Revenue by \$99.3 million to \$142.5 million in calendar year 2020, of which \$66.2 million to \$101.2 million would be General Revenue. By calendar year 2027, these sections could increase Total State Revenue by \$124.0 million to \$189.5 million of which \$88.1 million to \$134.5 million would be General Revenue. B&P notes that these estimates reflect the full potential revenue and do not include adjustments for implementation timing or business compliance. Therefore, the actual revenue collected in earlier years may be significantly lower than the estimated amount. Tables 1 and 2 show the estimated revenue from the online sales tax sections by calendar year and fiscal year.

Table 1: Estimated Sales Tax Collections from Online Sales by TAX Year (Figures in Millions)

Tax Year	2020		2021		2022	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth & Threshold	\$184.0	\$281.1	\$197.7	\$302.0	\$209.0	\$319.3
GR (approx 36% of total collections)	\$66.2	\$101.2	\$71.2	\$108.7	\$75.2	\$114.9
Education	\$22.1	\$33.7	\$23.7	\$36.2	\$25.1	\$38.3
Conservation	\$2.8	\$4.2	\$3.0	\$4.5	\$3.1	\$4.8
Parks, Soil & Water	\$2.2	\$3.4	\$2.4	\$3.6	\$2.5	\$3.8
TSR (4.225% sales tax)	\$93.3	\$142.5	\$100.2	\$153.1	\$106.0	\$161.9
Local (2.275% sales tax)	\$53.5	\$81.7	\$57.4	\$87.8	\$60.7	\$92.8

Note: TSR + Local does not equal GAO Adjusted because the total sales and use tax rate is limited to 6.5% instead of the actual rates

Tax Year	2023		2024		2025	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth & Threshold	\$217.3	\$332.0	\$223.8	\$342.0	\$230.6	\$352.2
GR (approx 36% of total collections)	\$78.2	\$119.5	\$80.6	\$123.1	\$83.0	\$126.8
Education	\$26.1	\$39.8	\$26.9	\$41.0	\$27.7	\$42.3
Conservation	\$3.3	\$5.0	\$3.4	\$5.1	\$3.5	\$5.3
Parks, Soil & Water	\$2.6	\$4.0	\$2.7	\$4.1	\$2.8	\$4.2
TSR (4.225% sales tax)	\$110.2	\$168.3	\$113.5	\$173.4	\$116.9	\$178.6
Local (2.275% sales tax)	\$63.1	\$96.5	\$65.0	\$99.4	\$67.0	\$102.3

Note: TSR + Local does not equal GAO Adjusted because the total sales and use tax rate is limited to 6.5% instead of the actual rates

Tax Year	2026		2027	
	Low	High	Low	High
GAO Adjusted for Digital, Growth & Threshold	\$237.5	\$362.8	\$244.6	\$373.7
GR (approx 36% of total collections)	\$85.5	\$130.6	\$88.1	\$134.5
Education	\$28.5	\$43.5	\$29.4	\$44.8
Conservation	\$3.6	\$5.4	\$3.7	\$5.6
Parks, Soil & Water	\$2.9	\$4.4	\$2.9	\$4.5
TSR (4.225% sales tax)	\$120.4	\$183.9	\$124.0	\$189.5
Local (2.275% sales tax)	\$69.0	\$105.4	\$71.1	\$108.6

Note: TSR + Local does not equal GAO Adjusted because the total sales and use tax rate is limited to 6.5% instead of the actual rates

Table 2: Estimated Sales Tax Collections from Online Sales by **FISCAL** Year (Figures in Millions)

Fiscal Year	2020		2021		2022	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth & Threshold	\$92.0	\$140.6	\$190.9	\$291.6	\$203.4	\$310.7
GR (approx 36% of total collections)	\$33.1	\$50.6	\$68.7	\$105.0	\$73.2	\$111.8
Education	\$11.0	\$16.9	\$22.9	\$35.0	\$24.4	\$37.3
Conservation	\$1.4	\$2.1	\$2.9	\$4.4	\$3.1	\$4.7
Parks, Soil & Water	\$1.1	\$1.7	\$2.3	\$3.5	\$2.4	\$3.7
TSR (4.225% sales tax)	\$46.6	\$71.3	\$96.8	\$147.8	\$103.1	\$157.5
Local (2.275% sales tax)	\$26.7	\$40.8	\$55.5	\$84.7	\$59.1	\$90.3

Note: TSR + Local does not equal GAO Adjusted because the total sales and use tax rate is limited to 6.5% instead of the actual rates

Fiscal Year	2023		2024		2025	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth & Threshold	\$213.2	\$325.7	\$220.6	\$337.0	\$227.2	\$347.1
GR (approx 36% of total collections)	\$76.7	\$117.2	\$79.40	\$121.3	\$81.8	\$125.0
Education	\$26.5	\$39.1	\$26.5	\$40.4	\$27.3	\$41.7
Conservation	\$3.2	\$4.9	\$3.3	\$5.1	\$3.4	\$5.2
Parks, Soil & Water	\$2.6	\$3.9	\$2.6	\$4.0	\$2.7	\$4.2
TSR (4.225% sales tax)	\$108.1	\$165.1	\$111.8	\$170.9	\$115.2	\$176.0
Local (2.275% sales tax)	\$61.9	\$94.6	\$64.1	\$97.9	\$66.0	\$100.9

Note: TSR + Local does not equal GAO Adjusted because the total sales and use tax rate is limited to 6.5% instead of the actual rates

Fiscal Year	2026		2027		2028	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth & Threshold	\$234.1	\$357.5	\$241.1	\$368.3	\$244.6	\$373.7
GR (approx 36% of total collections)	\$84.3	\$128.7	\$86.8	\$132.6	\$88.1	\$134.5
Education	\$28.1	\$42.9	\$28.9	\$44.2	\$29.4	\$44.8
Conservation	\$3.5	\$5.4	\$3.6	\$5.5	\$3.7	\$5.6
Parks, Soil & Water	\$2.8	\$4.3	\$2.9	\$4.4	\$2.9	\$4.5
TSR (4.225% sales tax)	\$118.7	\$181.3	\$122.2	\$186.7	\$124.0	\$189.5
Local (2.275% sales tax)	\$68.0	\$103.9	\$70.0	\$107.0	\$71.1	\$108.6

Note: TSR + Local does not equal GAO Adjusted because the total sales and use tax rate is limited to 6.5% instead of the actual rates

ASSUMPTION (continued)

Section 144.021 will not impact the calculation under Article X, Section 18(e) as this would not technically be a new tax. Much of the revenue from online retail sales should already be due under the existing use tax law.

Oversight notes that B&P uses a 42% in first fiscal year and 58% split in the second year to convert the numbers from tax year to fiscal year.

Officials at the **Department of Revenue (DOR)** assume in addition to the joint research with B&P noted in their response, DOR reviewed confidential internal data related to remote sales and use tax collections. While the Department does not believe enough internal data exists to support a definitive conclusion, the data we were able to analyze supported a revenue estimate in the range referenced in our joint research with B&P.

The Department of Revenue notes that the collectability of sales taxes on remote sellers is an unknown, particularly for sellers outside the United States. The revenue estimates supported by research may be reduced by an unknown amount due to collectability.

If we estimate that any online seller attributes 1.6% of its sales to Missouri purchasers, the online seller would need to have total sales of approximately \$6 million to generate more than \$100,000 in annual Missouri sales (\$6 million total sales*1.6% MO GDP=\$96,000 Missouri sales) . According to PipeCandy.com, there are approximately 9,151 total online sellers that generate more than \$5 million annually in online sales.

The Department would notify an estimated 200,000 sellers of their potential reporting requirements, estimated postage and printing costs for notifications to online sellers may be up to an estimated \$100,000.

The Sales Tax Section estimates it will need 3 Revenue Processing Technicians I (\$24,360 each) to process the additional returns, 1 Revenue Processing Technician I (\$24,360) to answer additional correspondence and 2 Revenue Processing Technicians I (\$24,360) to process the additional registration applications and perform location maintenance.

The FCB Audit Section will need to increase our number of auditors, especially those in out-of-state offices, in order to address the potential of a greater non-compliant tax base. The Department would need to add 25 Auditors (\$38,304 for each Missouri Auditor, more for out-of-state). The Department believes the 25 total auditors could increase over a period of time, as the Department generally performs three-year audits, and there will be limited records to audit in the first several years following implementation of this proposed bill. DOR also estimates it will

ASSUMPTION (continued)

need 2 additional Auditors in the Training Section, to perform discovery work needed to identify potential audit leads from non-registered businesses.

Oversight will show the need for the DOR FTE and mailing costs in the fiscal note.

Oversight will show B&P's estimate in the fiscal note.

Officials at the **Department of Conservation** assume an unknown fiscal impact but greater than \$100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of 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. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

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. Any increase in sales tax collected could increase revenue to the Parks and Soils Sales Tax Funds. The Department assumes any increase in revenue to the Parks and Soils Sales Tax fund would be used for the purposes established in Article IV Section 47(a) of the Missouri Constitution.

The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that Article IV, Section 47 of the Missouri Constitution, allows revenue received from an additional sales tax of one-tenth (1/10) of percent (1%) to be used for the conservation and management of the soil and water resources of Missouri and for the proper management of the state parks. The Parks Sales Tax Fund (0613) and the Soil and Water Sales Tax Fund (0614) each are to receive 50% of this additional sales tax funding.

Officials at the **Missouri Department of Transportation** assume there is no fiscal impact from this proposal.

Officials at the **City of St. Louis** assume that among provisions reducing state income taxes the proposed legislation would replace the existing sales and use tax on out of state purchases with a "simplified remote sales tax remittance program". The legislation specifically limits the total rate

ASSUMPTION (continued)

of the new tax to 6 ½ percent and specifies that the manner of distribution of proceeds paid to localities shall be determined by the Department of Revenue. The City of St. Louis currently has an existing use tax which generated \$33.9 million over the last fiscal year (FY 2018). The distribution of these revenues is set by local ordinance and includes funding for city services such as affordable housing, building demolition, public health and safety. The total use tax rate in the City when combined with the state use tax rate is 9.013%. It is unclear how the cap of 6.5% per the proposed legislation which would be a reduction in this rate would be allocated between city and state but leaves open the potential loss of significant revenue to the City. Once received, how these funds are to be allocated on the local level is also unclear. Existing sales tax rates have differing statutory restrictions then does the existing use tax, thus the method for how these funds are to be distributed may also have a major impact on the City's discretionary budget authority.

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** assume 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 \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could require additional resources.

ASSUMPTION (continued)

§143.011 Individual Income Tax Rate Change

Oversight notes the current projected Individual Income Tax Rate is calculated as follows:

TY 2018 it was 5.9%

TY 2019 it is 5.4% (.1% reduction from SB 509 + .4% reduction from HB 2540)

TY 2020 will be 5.3% (.1% reduction from SB 509)

TY 2021 will be 5.2% (.1% reduction from SB 509)

TY 2022 will be 5.1% (last .1% reduction from SB 509)

Officials at the **B&P** assume §143.011.4 would create a rate reduction of 0.025% in the top rate of tax if net general revenue collections from the online sales tax sections are at least \$40 million in the previous fiscal year. In addition, for every \$20 million collected in excess of the \$40 million, there shall be another top rate reduction of 0.025%. The aggregate amount of reductions made under this subsection shall not exceed 0.4%.

B&P notes that the language does not stipulate that a rate reduction should occur only if the amount of online sales tax collections are greater than the amount in the previous fiscal year. Therefore, for the purpose of this fiscal note, B&P estimates that the full 0.4% reduction will occur. Tables 3 and 4 show the current and potential top income tax rates by calendar year based on the low and high estimates for online sales tax collections previously shown.

Table 3: Income Tax Rate Based on **Low** Sales Tax - (Figures in Millions)

Calendar Year	Current Law	Previous FY Online sales tax estimate (from Table 2)	Number of Rate Reductions	Proposed New Rate
2021	5.2%	\$33.1	0	5.20%
2022	5.1%	\$68.7	2	5.05%
2023	5.1%	\$73.2	2	5.00%
2024	5.1%	\$76.7	2	4.95%
2025	5.1%	\$79.4	2	4.90%
2026	5.1%	\$81.8	3	4.825%
2027	5.1%	\$84.3	3	4.75%
2028*	5.1%	\$86.8	2	4.70%

*B&P notes that by 2028, only 2 reductions are needed before the maximum 0.4% reduction occurs

ASSUMPTION (continued)

Table 4: Income Tax Rate Based on **High** Sales Tax - (Figures in Millions)

Calendar Year	Current Law	Previous FY Online sales tax estimate (from Table 2)	Number of Rate Reductions	Proposed New Rate
2021	5.2%	\$50.6	1	5.175%
2022	5.1%	\$105.0	4	4.975%
2023	5.1%	\$111.8	4	4.875%
2024	5.1%	\$117.2	4	4.775%
2025*	5.1%	\$121.3	3	4.70%

*B&P notes that by 2025, only 3 reductions are needed before the maximum 0.4% reduction occurs.

B&P further notes that all income tax estimates were created after accounting for SB 509 (2014), HB 2540 (2018), and the Federal Tax Cuts and Jobs Act (TCJA) (2017). Table 5 shows the estimated General Revenue impact from the top rate reductions by tax year.

Table 5: General Revenue Impact from Income Tax Reduction in **TAX** Year - (Figures in Millions)

Calendar Year	Low Sales	High Sales
TY 2021	\$0.0	(\$23.0)
TY 2022	(\$45.8)	(\$115.5)
TY 2023	(\$91.2)	(\$208.5)
TY 2024	(\$137.3)	(\$300.9)
TY 2025	(\$182.9)	(\$369.2)
TY 2026	(\$252.4)	(\$369.2)
TY 2027	(\$321.1)	(\$369.2)
TY 2028	(\$365.4)	(\$369.2)

ASSUMPTION (continued)

Table 6: shows the estimated Income tax impact from the top rate reductions by **FISCAL** Year.

Fiscal Year	Low Sales	High Sales
FY 2021	\$0.0	(\$9.7)
FY 2022	(\$19.3)	(\$61.8)
FY 2023	(\$64.9)	(\$154.6)
FY 2024	(\$110.6)	(\$247.3)
FY 2025	(\$156.4)	(\$329.5)
FY 2026	(\$212.1)	(\$369.2)
FY 2027	(\$281.3)	(\$369.2)
FY 2028	(\$339.8)	(\$369.2)
FY 2029	(\$365.4)	(\$369.2)

Oversight notes that B&P uses a 42% in first fiscal year and 58% split in the second year to convert the numbers from tax year to fiscal year.

Section 143.011 will impact the calculation under Article X, Section 18(e).

Officials at the **DOR** assume this section states, that in addition to the rate reductions under subsections 2 and 3 of this section, beginning with the 2020 calendar year, the top rate of tax under subsection 1 of this section may be reduced over a period of years. Reductions in the top rate of tax shall be in increments of twenty-five thousandths of one percent, as provided under subdivision (2) of this subsection. Reductions in the rate of tax shall take effect on January first of the calendar year and such reduced rates shall continue in effect until the next reduction.

This proposal states that a reduction in the rate of tax shall only occur if the amount of net general revenue collected under the provisions of §144.530 to §144.565 in the previous fiscal year equals or exceeds forty million dollars. For every twenty million dollars of net general revenue collected during the same fiscal year above the threshold established under this subdivision, the top rate of tax under subsection 1 of this section shall be reduced by an additional twenty-five thousandths of one percent. The aggregate amount of reductions made under this subsection shall not exceed four-tenths of one percent.

This proposed section states that any modification under this subsection shall only apply to tax years that begin on or after a modification takes effect.

ASSUMPTION (continued)

This proposed section states that the director of the Department of Revenue shall, by rule, adjust the tax tables under subsection 1 of this section to effectuate the provisions of this subsection.

The Department used our individual income tax model that contains confidential taxpayer data to run this proposed legislation. Per §143.011 we followed the following chart regarding the number of .025 percent reductions would happen during each year, and since our Wayfair estimates are based on high and low estimates there will also be a high and low estimate when it comes to income tax.

Number of .025% Reduction		
	Low	High
TY21	0	1
TY22	2	4
TY23	2	4
TY24	2	4
TY25	2	3
TY26	3	
TY27	2	

After these reductions were applied to the top tax bracket, the following chart shows what the top rate would be.

	Tax Rate (Low)	Tax Rate (High)
TY21	5.20%	5.175%
TY22	5.05%	4.975%
TY23	5.00%	4.875%
TY24	4.95%	4.775%
TY25	4.90%	4.700%
TY26	4.825%	
TY27	4.75%	
TY28	4.70%	

ASSUMPTION (continued)

The Department then utilized the tax model to find the individual income tax impacts of this proposal.

Income Tax Estimates (SB 50)		
	Low Estimate	High Estimate
TY 21		\$ (22.9)
TY 22	\$ (45.6)	\$ (114.8)
TY 23	\$ (90.8)	\$ (207.5)
TY 24	\$ (136.7)	\$ (299.4)
TY 25	\$ (182.1)	\$ (367.3)
TY 26	\$ (250.0)	\$ (367.3)
TY 27	\$ (319.6)	\$ (367.3)
TY 28	\$ (363.5)	\$ (367.3)

Using the Department's Wayfair estimates and putting all the data into fiscal years, the chart below shows the total impact.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

ASSUMPTION (continued)

Officials at the **University of Missouri’s Economic and Policy Analysis Research Center (EPARC)** assume this proposal would create the “simplified remote sales tax remittance program” (SRSTRP). The author anticipates an increase in net general revenue remitted through this program. This proposal would decrease the top individual income tax rate by twenty-five thousandths of one percent to compensate for every \$20 million increase in net general revenue remitted through the simplified remote sales tax remittance program.

Although we are unable to predict the amount of General Revenue that would be remitted through the simplified remote sales tax remittance program in any given year, we are able to provide a sample of the impact of reducing the top individual income tax rate by twenty-five thousandths of one percent in response to each \$20 million increase in net general revenue remitted through this program. The following table reports our findings.

Increase in Net General Revenue reported from SRSTRP	Top Tax Rate	Net Tax Due Reported	Reduction in Net Tax Due
Baseline	5.400%	\$5,324.401 million	\$0
\$20 million	5.375%	\$5,301.187 million	\$23.214 million
\$40 million	5.350%	\$5,277.983 million	\$46.418 million
\$60 million	5.325%	\$5,254.786 million	\$69.615 million
\$80 million	5.300%	\$5,231.602 million	\$92.799 million

EPARC reports the baseline for our analysis where Net Tax Due is \$5,324.401 million. Should the top tax rate be reduced to 5.375% due to a reported \$20 million increase in Net General Revenue due to the simplified remote sales tax remittance program, we find Net Tax Due falls by \$23.214 million. This amount more than compensates for the increase in \$20 million reported by an additional decrease in Net General Revenue of \$3.214 million.

Should the top tax rate be reduced to 5.35% due to a reported \$40 million increase in Net General Revenue due to the simplified remote sales tax remittance program, we find Net Tax Due falls by \$46.418 million. This amount more than compensates for the increase in \$40 million reported by an additional decrease in Net General Revenue of \$6.418 million.

ASSUMPTION (continued)

Should the top tax rate be reduced to 5.325% due to a reported \$60 million increase in Net General Revenue due to the simplified remote sales tax remittance program, we find Net Tax Due falls by \$69.615 million. This amount more than compensates for the increase in \$60 million reported by an additional decrease in Net General Revenue of \$9.615 million.

Should the top tax rate be reduced to 5.3% due to a reported \$80 million increase in Net General Revenue due to the simplified remote sales tax remittance program, we find Net Tax Due falls by \$92.799 million. This amount more than compensates for the increase in \$80 million reported by an additional decrease in Net General Revenue of \$12.799 million.

Conclusion: As stated above, although we are unable to predict the amount of General Revenue that would be remitted through the “simplified remote sales tax remittance program” in any given year, we are able to provide a sample of the impact of reducing the top individual income tax rate by twenty-five thousandths of one percent in response to each \$20 million increase in net general revenue remitted to this program. We estimate that each reduction in the top tax rate of twenty-five thousandths of one percent currently overcompensates by approximately \$3.2 million, reducing total Net General Revenue by the same amount.

SUMMARY

B&P estimates that this proposal could increase Total State Revenue by \$46.6 million to \$71.3 million and General Revenue by \$33.1 million to \$50.6 million in FY 2020. If online sales tax collections are low, this proposal will reduce Total State Revenue by \$241.4 million and General Revenue by \$277.3 million once fully implemented in FY 2029. In addition, this proposal could increase local sales tax collections by \$71.1 million by FY 2029. Table 7 shows the estimated net impact to General Revenue if online sales tax collections are low.

B&P notes that the online sales tax estimates reflect the full potential revenue and do not include adjustments for implementation timing or business compliance. Therefore, the actual revenue collected in earlier years may be significantly lower than the estimated amount.

ASSUMPTION (continued)

Table 7: Low Estimate: **Net General Revenue Impact** = New Online Sales Tax - Income Tax Changes (Figures in Millions)

Fiscal Year	Low Sales Tax Numbers (from Table 2)	Income Tax Change (from Table 6)	Net GR Impact
FY 2020	\$33.1	\$0.0	\$33.1
FY 2021	\$68.7	\$0.0	\$68.7
FY 2022	\$73.2	(\$19.3)	\$53.9
FY 2023	\$76.7	(\$64.9)	\$11.8
FY 2024	\$79.4	(\$110.6)	(\$31.2)
FY 2025	\$81.8	(\$156.4)	(\$74.6)
FY 2026	\$84.3	(\$212.1)	(\$127.8)
FY 2027	\$86.8	(\$281.3)	(\$194.5)
FY 2028	\$88.1	(\$339.8)	(\$251.7)
FY 2029	\$88.1	(\$365.4)	(\$277.3)

If online sales tax collections are high, this proposal will reduce Total State Revenue by \$187.9 million and General Revenue by \$240.5 million once fully implemented in FY 2026. In addition, this proposal could increase local sales tax collections by \$103.9 by FY 2026. Table 8 shows the estimated net impact to General Revenue if online sales tax collections are high.

B&P notes that the online sales tax estimates reflect the full potential revenue and do not include adjustments for implementation timing or business compliance. Therefore, the actual revenue collected in earlier years may be significantly lower than the estimated amount.

Table 8: High Estimate: **Net General Revenue Impact** = New Online Sales Tax - Income Tax Changes (Figures in Millions)

Fiscal Year	High Sales Tax Number (from Table 2)	Income Tax Changes (from Table 6)	Net GR Impact
FY 2020	\$50.6	\$0.0	\$50.6
FY 2021	\$105.0	(\$9.7)	\$95.3
FY 2022	\$111.8	(\$61.8)	\$50.0
FY 2023	\$117.2	(\$154.6)	(\$37.4)
FY 2024	\$121.3	(\$247.3)	(\$126.0)
FY 2025	\$125.0	(\$329.5)	(\$204.5)
FY 2026	\$128.7	(\$369.2)	(\$240.5)

ASSUMPTION (continued)

Article X, Section 18(e) Impact:

Section 144.021 will not impact the calculation under Article X, Section 18(e) as this would not technically be a new tax. Much of the revenue from online retail sales should already be due under the existing use tax law.

Section 143.011 will impact the calculation under Article X, Section 18(e).

Therefore, this proposal will reduce the calculation under Article X, Section 18(e) by \$365.4 million to \$369.2 million annually, once fully implemented.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

DOR shares tax data with B&P to allow them to create revenue estimates used in their response to the proposal. Oversight has requested a copy of the data and models used provided under §23.050 RSMo, however, DOR stated the tax data and models used by B&P are confidential under §§ 610.032 RSMo and 32.057 and are unable to provide the data to Oversight.

Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P and DOR's revenue estimates.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2029)
GENERAL REVENUE				
<u>Revenue - DOR</u>				
§144.021 Online				
Sales Tax Collection page 20	\$33,100,000 to \$50,600,000	\$68,700,000 to \$105,000,000	\$73,200,000 to \$111,800,000	\$88,100,000 to \$128,700,000
<u>Cost - DOR</u>				
§144.021 - 6 RPT & 27- Auditors				
Personal Service	(\$1,025,217)	(\$1,242,563)	(\$1,254,988)	(\$1,345,516)
Fringe Benefits	(\$659,214)	(\$794,805)	(\$798,591)	(\$826,175)
Equip & Exp	<u>(\$256,977)</u>	<u>(\$16,202)</u>	<u>(\$16,607)</u>	<u>(\$19,740)</u>
<u>Total Cost - page 10</u>	(\$1,941,408)	(\$2,053,570)	(\$2,070,186)	(\$2,191,431)
FTE Change	33 FTE	33 FTE	33 FTE	33 FTE
<u>Cost - DOR</u>				
§144.021 mailing costs page 10				
	(\$100,000)	\$0	\$0	\$0
<u>Revenue Reduction -</u> DOR §143.011 individual income tax rate reduction* page 20				
	\$0	\$0 to <u>(\$9,700,000)</u>	(\$19,300,000 to <u>\$61,800,000)</u>	(\$365,400,000 to <u>\$369,200,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE				
	<u>\$31,058,592 to</u> <u>\$48,558,592</u>	<u>\$66,646,430 to</u> <u>\$93,246,430</u>	<u>\$47,929,814 to</u> <u>\$51,829,814</u>	<u>(\$242,691,431 to</u> <u>\$279,491,431)</u>

Estimated Net FTE
 Change on General
 Revenue

33 FTE	33 FTE	33 FTE	33 FTE
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*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2029)
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**SCHOOL
 DISTRICT TRUST
 FUND**

Revenue - DOR

§144.021 Online Sales Tax Collection* page 20	<u>\$11,000,000 to</u> <u>\$16,900,000</u>	<u>\$22,900,000 to</u> <u>\$35,000,000</u>	<u>\$24,400,000 to</u> <u>\$37,300,000</u>	<u>\$29,400,000 to</u> <u>\$42,900,000</u>
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**ESTIMATED NET
 EFFECT ON
 SCHOOL
 DISTRICT TRUST
 FUND**

	<u>\$11,000,000 to</u> <u>\$16,900,000</u>	<u>\$22,900,000 to</u> <u>\$35,000,000</u>	<u>\$24,400,000 to</u> <u>\$37,300,000</u>	<u>\$29,400,000 to</u> <u>\$42,900,000</u>
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**CONSERVATION
 COMMISSION
 FUNDS**

Revenue - DOR

§144.021 Online Sales Tax Collection* page 20	<u>\$1,400,000 to</u> <u>\$2,100,000</u>	<u>\$2,900,000 to</u> <u>\$4,400,000</u>	<u>\$3,100,000 to</u> <u>\$4,700,000</u>	<u>\$3,700,000 to</u> <u>\$5,400,000</u>
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**ESTIMATED NET
 EFFECT ON
 CONSERVATION
 COMMISSION
 FUNDS**

	<u>\$1,400,000 to</u> <u>\$2,100,000</u>	<u>\$2,900,000 to</u> <u>\$4,400,000</u>	<u>\$3,100,000 to</u> <u>\$4,700,000</u>	<u>\$3,700,000 to</u> <u>\$5,400,000</u>
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<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2029)
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**PARK, SOIL &
 WATER FUNDS**

Revenue - DOR

§144.021 Online

Sales Tax	<u>\$1,100,000 to</u>	<u>\$2,300,000 to</u>	<u>\$2,400,000 to</u>	<u>\$2,900,000 to</u>
Collection* page 20	<u>\$1,700,000</u>	<u>\$3,500,000</u>	<u>\$3,700,000</u>	<u>\$4,300,000</u>

**ESTIMATED NET
 EFFECT ON**

PARK, SOIL & WATER FUNDS	<u>\$1,100,000 to</u> <u>\$1,700,000</u>	<u>\$2,300,000 to</u> <u>\$3,500,000</u>	<u>\$2,400,000 to</u> <u>\$3,700,000</u>	<u>\$2,900,000 to</u> <u>\$4,300,000</u>
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*** Oversight assumes a positive unknown to negative unknown for revenue estimates until we are able to estimate revenue or verify the data and models provided. Oversight will also reflect B&P's revenue estimates for the changes to the tax rates.**

FISCAL DESCRIPTION (continued)

further reduced by 0.025%. The aggregate amount of reductions under this act shall not exceed 0.4%. (§143.011)

SALES TAX ECONOMIC NEXUS - This act requires sellers who do not maintain a physical presence in this state to collect and remit sales tax on purchases delivered into the state if such seller: 1) has gross revenue from the delivery of tangible personal property into this state in the previous or current calendar year of at least \$100,000, or 2) sold tangible personal property into this state in 200 or more separate transactions during the previous or current calendar year. (§144.021)

SIMPLIFIED REMOTE SALES TAX - This act establishes the Simplified Remote Sales Tax Remittance Program to facilitate the collection, reporting, and remittance of sales tax by remote sellers.

Sellers who do not maintain a physical presence in this state and who make taxable sales of tangible personal property into this state may apply to the Department of Revenue to participate in the program. Only sellers approved by the Department shall collect and remit the simplified remote sales tax. The Department shall develop and make available to eligible sellers an easily accessible, online system in which to collect, report, and remit the simplified remote sales tax. Sellers shall comply with all laws and procedures in order to remain in the program. (§144.540)

In lieu of the sales or use tax otherwise due on sales made into this state, participating sellers shall collect and remit the simplified remote sales tax at the rate of 6.5% of the sales price on any tangible personal property other than motor vehicles, trailers, and other vehicles required to be titled, or at a rate of 3.5% of the sales price on food sold or delivered into the state. No other rate or sales or use tax shall be required to be collected, regardless of the actual combined tax rate that may be otherwise applicable at the location of the purchaser. The seller shall provide the purchaser with a statement or invoice showing that the simplified remote sales tax was collected and is to be remitted on the purchaser's behalf. (§144.545)

Any purchaser who pays a simplified remote sales tax that is higher than the actual combined state and local sales tax levied in the locality where the sale was delivered may file for a refund of the excess amount paid. Such refund claims shall be filed according to procedures established by the Department. Purchasers filing for a refund shall maintain records documenting the amount of simplified remote sales tax paid. (§144.550)

The revenue generated by the simplified remote sales tax paid shall be distributed by a formula to be determined by the Director of Revenue. The manner of distribution of revenue to localities shall occur as determined by the Department. (§144.555)

FISCAL DESCRIPTION (continued)

MARKETPLACE FACILITATORS - By January 1, 2020, marketplace facilitators, as defined in the act, that meet the sales tax economic nexus threshold established in the act shall register with the Department to collect and remit sales tax on sales made into the state through the marketplace facilitator's marketplace by or on behalf of a marketplace seller, as defined in the act. Such retail sales shall include those made directly by the marketplace facilitator as well as those made by marketplace sellers through the marketplace facilitator's marketplace.

Marketplace facilitators required to collect and remit sales tax under this act may do so under the provisions of the Simplified Remote Sales Tax Remittance Program established by the act. Marketplace facilitators properly collecting and remitting sales tax in a timely manner shall be eligible for any discount provided for under current law.

Marketplace facilitators shall provide purchasers with a statement or invoice showing that the sales tax was collected and shall be remitted on the purchaser's behalf. (§144.560)

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

City of St. Louis
Department of Conservation
Department of Revenue
Department of Natural Resources
Joint Committee on Administrative Rules
Missouri Department of Transportation
Office of Administration Division of Budget and Planning
Office of the Secretary of State
University of Missouri's Economic and Policy Analysis Research Center



Kyle Rieman
Director

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Assistant Director

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