

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0531-02
Bill No.: SB 46
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Cities, Towns and Villages; Counties
Type: Original
Date: January 28, 2019

Bill Summary: This proposal modifies several provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
General Revenue*	Unknown to (Unknown) or (\$62,456,936 to \$81,194,078)	(Unknown to (Unknown) or (\$167,476,057 to \$205,136,057)	Unknown to (Unknown) or (\$161,893,856 to \$201,553,856)	(Unknown to (Unknown) or (\$158,111,842 to \$199,371,842)
Total Estimated Net Effect on General Revenue	Unknown to (Unknown) or (\$62,456,936 to \$81,194,078)	(Unknown to (Unknown) or (\$167,476,057 to \$205,136,057)	Unknown to (Unknown) or (\$161,893,856 to \$201,553,856)	(Unknown to (Unknown) or (\$158,111,842 to \$199,371,842)

* 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 for the changes to the tax rates.

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 37 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2023)
School District Trust*	Unknown or (Unknown) to \$12,300,000 to \$18,500,000	Unknown or (Unknown) to \$24,500,000 to \$37,000,000	Unknown or (Unknown) to \$25,900,000 to \$39,100,000	Unknown or (Unknown) to \$26,900,000 to \$40,600,000
Conservation Commission*	Unknown or (Unknown) to \$1,600,000 to \$2,400,000	Unknown or (Unknown) to \$3,100,000 to \$4,600,000	Unknown or (Unknown) to \$3,200,000 to \$4,900,000	Unknown or (Unknown) to \$3,400,000 to \$5,100,000
Parks, Soil & Water*	Unknown or (Unknown) to \$1,300,000 to \$1,900,000	Unknown or (Unknown) to \$2,500,000 to \$3,700,000	Unknown or (Unknown) to \$2,600,000 to \$3,900,000	Unknown or (Unknown) to \$2,700,000 to \$4,100,000
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown or (Unknown) to \$15,200,000 to \$22,800,000	Unknown or (Unknown) to \$30,100,000 to \$45,300,000	Unknown or (Unknown) to \$31,700,000 to \$47,900,000	Unknown or (Unknown) to \$33,000,000 to \$49,800,000

* 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 and DOR'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 2023)
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 2023)
General Revenue	36 FTE	36 FTE	36 FTE	36 FTE
Total Estimated Net Effect on FTE	36 FTE	36 FTE	36 FTE	36 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 2023)
Local Government	Unknown to (Unknown) or \$30,557,108 to \$56,257,108	Unknown to (Unknown) or \$60,554,217 to \$111,954,217	Unknown to (Unknown) or \$66,054,217 to \$120,454,217	Unknown to (Unknown) or \$70,154,217 to \$126,754,217

*** 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 for the changes to the tax rates.**

FISCAL ANALYSIS

ASSUMPTION

INDIVIDUAL SECTION CALCULATIONS

§32.070, §32.087 - §94.900, §114.010 - §144.032, §144.054 - §144.285, §144.600 - §644.032 Streamlined Sales and Use Tax Agreement (SSUTA)

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume §32.070 requires Department of Revenue (DOR) to enter into the Streamlined Sales and Use Tax Agreement (SSUTA). B&P notes that this section will not impact Total State Revenue or the calculation under Article X, Section 18(e). However, definitions and sales tax exemption changes created by joining the SSUTA will impact Total State Revenue and the calculation under Article X, Section 18(e) as indicated in each affected section below.

Officials at the **Department of Revenue (DOR)** assume these sections enter Missouri into the Streamlined Sales and Use Tax Agreement (SSUTA). This would allow Missouri the ability to collect Use Tax from out-of-state sellers.

DOR's Excise Tax Section would need 2 Revenue Processing Technicians I (\$24,360) for return processing and correspondence. The Sales Tax Section does not envision an FTE impact for the Sales Tax area, but rule writing will create a significant impact for which we will need additional managerial assistance. Sales Tax requires 1 Management Analyst Specialist I (\$38,304).

DOR's Integrated Tax System will incur additional costs of \$676,000 to implement the provisions of this legislation.

Oversight will show the need for the DOR FTE and computer programing expenses in the fiscal note. This proposal becomes effective on January 1, 2020 and therefore the fiscal note will reflect six months of FTE expenses in FY 2020.

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.

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. 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 **Office of the State Treasurer (STO)** assume there is no fiscal impact from this proposal.

Oversight notes that the Office of the State Treasurer have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for the STO.

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

ASSUMPTION (continued)

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.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities, counties and school districts were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

§32.086 DOR Retain 1% Collection Fee

Officials at the **B&P** assume §32.086 states that DOR shall retain 1% for all local sales and use taxes collected by the department, unless a higher percentage is allowed by law. Based on information provided by DOR, there are 613 local sales taxes for which DOR is not currently retaining 1% of collections. Based on information provided by DOR, total sales tax collections for those 613 jurisdictions were \$260.6 million in FY 2018. Therefore, B&P estimates that this provision will increase Total State Revenue and General Revenue by \$1.3 million in FY 2020. Once fully implemented (FY 2021), this provision will increase Total State Revenue and General Revenue by \$2.6 million annually.

Officials at the **DOR** assume this section allows the Department to retain one percent of all local sales and use tax remitted by a political subdivision or taxing jurisdiction, unless a greater amount is specified in the local sales and use tax law.

In fiscal year 2017, the Department collected \$243,776,829 in sales tax from special taxing districts (TDDs, CIDs, TIFs). Currently, the Department does not retain any amount of sales tax collections from these special taxing districts. If the Department were to retain one percent of the sale tax collections of these special taxing districts, General Revenue may increase by an estimated \$2,437,768 per year.

FY 2020	FY 2021	FY 2022
\$1,218,884	\$2,437,768	\$2,437,768

Oversight notes this provision becomes effective January 1, 2020 and therefore, DOR will only collect six months worth of the 1% collection fee in FY 2020. The fiscal note will reflect the estimate provided by B&P.

ASSUMPTION (continued)

§143.011 Individual Income Tax Rate

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 reduce the top individual income tax rate of tax by 0.3% beginning with tax year 2020. For the purpose of this fiscal note, B&P assumes that the rate reductions currently scheduled to implement under SB 509 (2014) will occur in consecutive years from tax year 2018 through tax year 2022.

Accounting for the changes in individual income tax law created by SB 509 (2014), HB 2540 (2018) and the Tax Cuts and Jobs Act (2017), B&P estimates that this section will reduce Total State Revenue and General Revenue by \$279.0 million in tax year 2020. Once fully implemented in tax year 2022, this section will reduce Total State Revenue and General Revenue by \$280.4 million. Table 1 shows the impact from this section by calendar year.

Table 1: Rate Reduction by Calendar Year (figures in millions)

Tax Year	General Revenue Impact
2020	(\$279.0)
2021	(\$279.2)
2022	(\$280.4)

However, because this proposal would take effect January 1, 2020 individuals will adjust their withholdings and declarations during FY 2020. Therefore, B&P estimates that this proposal will reduce Total State Revenue and General Revenue by \$117.2 million in FY 2020. Once fully implemented in FY 2023, and annually thereafter, this proposal will reduce Total State Revenue and General Revenue by \$280.4 million. Table 2 shows the estimated impact from this section by fiscal year.

ASSUMPTION (continued)

Table 2: Rate Reduction by Fiscal Year (figures in millions)

Fiscal Year	General Revenue Impact
2020	(\$117.2)
2021	(\$279.1)
2022	(\$279.7)
2023	(\$280.4)

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 **DOR** assume this section would allow for a three-tenths of one percent reduction in the top rate of tax. For the purpose of this fiscal note, the Department will assume that the rate reductions scheduled to occur under existing law will happen in consecutive years from 2018 through 2020. Which would mean that beginning January 1, 2020, the top rate of tax would be five percent under this proposal.

Tax Year	Current Law	Proposed Law
2018	5.9%	
2019	5.4%	
2020	5.3%	5.0%
2021	5.2%	4.9%
2022	5.1%	4.8%

*This chart reflects the proposed changes of this section

Impact to General Revenue			
FY20	FY21	FY22	FY23
(\$138,865,252)	(\$277,819,329)	(\$278,309,344)	(\$278,986,031)

In order to figure the impact of this section, the Department used a tax model created by utilizing confidential taxpayer information from internal and federal sources.

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

ASSUMPTION (continued)

Officials at the **University of Missouri's Economic and Policy Analysis Research Center (EPARC)** assume that although there are many changes to statutes encompassed in this bill, we will be restricting our analysis to the portions of this bill that pertain to individual income tax. If enacted this bill will reduce the top tax rate by three-tenths of one percent.

The baseline below reflects the Missouri tax brackets and rates as they will be in 2019. The simulation below reflects the proposed Missouri individual income tax brackets in this bill.

Baseline

If the Missouri taxable income is:	The tax is:
Not over \$1,053 ...	1 ½ % of the Missouri taxable income
Over \$1,053 but not over \$2,106 ...	\$16 plus 2 % of excess over \$1,053
Over \$2,106 but not over \$3,159 ...	\$37 plus 2 ½ % of excess over \$2,106
Over \$3,159 but not over \$4,212 ...	\$63 plus 3 % of excess over \$3,159
Over \$4,212 but not over \$5,265 ...	\$95 plus 3 ½ % of excess over \$4,212
Over \$5,265 but not over \$6,317 ...	\$132 plus 4 % of excess over \$5,265
Over \$6,317 but not over \$7,370 ...	\$174 plus 4 ½ % of excess over \$6,317
Over \$7,370 but not over \$8,423 ...	\$221 plus 5 % of excess over \$7,370
Over \$8,423 ...	\$274 plus 5.4 % of excess over \$8,423

Simulation

If the Missouri taxable income is:	The tax is:
Not over \$1,053 ...	1 ½ % of the Missouri taxable income
Over \$1,053 but not over \$2,106 ...	\$16 plus 2 % of excess over \$1,053
Over \$2,106 but not over \$3,159 ...	\$37 plus 2 ½ % of excess over \$2,106
Over \$3,159 but not over \$4,212 ...	\$63 plus 3 % of excess over \$3,159
Over \$4,212 but not over \$5,265 ...	\$95 plus 3 ½ % of excess over \$4,212
Over \$5,265 but not over \$6,317 ...	\$132 plus 4 % of excess over \$5,265
Over \$6,317 but not over \$7,370 ...	\$174 plus 4 ½ % of excess over \$6,317
Over \$7,370 but not over \$8,423 ...	\$221 plus 5 % of excess over \$7,370
Over \$8,423 ...	\$274 plus 5.1 % of excess over \$8,423

The reports shows the baseline for the analysis where Net Tax Due is \$5,324.401 million. The simulation reports results of the aforementioned individual income tax changes which shows Net Tax Due equals \$5,046.469 million. This is a decrease of Net Tax Due of \$277.932 million from the baseline. Therefore, this corresponds to a decrease in Net General Revenue of \$277.932 million.

ASSUMPTION (continued)

§143.121 Interest Received From Federal Reserve Subtracted from Taxpayer's FAGI

Officials at the **B&P** assume this section would exempt interest received from deposits at a federal reserve bank from individual and corporate income tax. B&P notes that due to the ambiguous language currently in law, some taxpayers may already be claiming this exemption. For the purpose of this fiscal note, B&P assumes that all entities eligible to claim the proposed income exemption are corporate depository institutions (i.e. banks).

St. Louis Federal Reserve

In 2017, the St. Louis Federal Reserve paid interest of \$3 million total to all depository institutions within its region. There are seven states that make up the St. Louis Federal Reserve region. For the purpose of this fiscal note, B&P assumes that the \$3 million in interest payments were paid evenly among all regional states. However, B&P acknowledges that some states may have larger or smaller banks than those in Missouri, resulting in more or less actual interest payments to Missouri banks than estimated here. Therefore, B&P estimates that this section could exempt up to \$429,000 in interest payments from the corporate income tax.

Kansas City Federal Reserve

In 2017, the Kansas City Federal Reserve paid interest of \$10 million total to all depository institutions within its region. There are seven states that make up the Kansas City Federal Reserve region. For the purpose of this fiscal note, B&P assumes that the \$10 million in interest payments were paid evenly among all regional states. However, B&P acknowledges that some states may have larger or smaller banks than those in Missouri, resulting in more or less actual interest payments to Missouri banks than estimated here. Therefore, B&P estimates that this section could exempt up to \$1,429,000 in interest payments from the corporate income tax.

B&P notes that while the current corporate tax rate is 6.25%, this tax rate is scheduled to decline to 4.0% beginning January 1, 2020. Further, this proposal would become effective January 1, 2020. Therefore, B&P will adjust estimates for FY 2021 and beyond to reflect the lower corporate tax rate. B&P estimates that this section could reduce Total State Revenue and General Revenue by less than \$74,000 ($4.0\% * (\$429,000 + \$1,429,000)$) in FY 2021 and annually thereafter.

Officials at the **DOR** assume this section outlines what is to be subtracted from a taxpayer's federal adjusted gross income. The proposed legislation includes interest received on deposits held at a federal reserve bank as an eligible subtraction.

ASSUMPTION (continued)

The deduction would be allowed for all tax years beginning January 1, 2020. Therefore, we won't see an impact until the banks file their 2020 tax returns. Even if they are short year filers that still would not happen until we are into FY 2021. The proposed legislation could potentially reduce General Revenue in an amount up to \$74,285 beginning FY 2021 and for each following fiscal years.

Impact to General Revenue		
FY 2020	FY 2021	FY 2022
\$0	(\$74,285)	(\$74,285)

There are two Federal Reserve Banks located in Missouri, the Federal Reserve Bank of St. Louis, and the Federal Reserve Bank of Kansas City.

The St. Louis Federal Reserve includes the state of Arkansas and portions of Illinois, Indiana, Kentucky, Mississippi, the eastern half of Missouri and West Tennessee. It has branches in Little Rock, Louisville, and Memphis. According to the 2017 Independent Auditor's Report, the St. Louis Federal Reserve Bank paid \$3 million dollars in interest to the regional depository institutions.

Seven states make reserve deposits into the St. Louis Federal Reserve Bank. The St. Louis Federal Reserve Bank is paying an estimated total of \$428,571 in interest to Missouri depository institutions. $(3,000,000/7)$. Multiply that amount by Missouri's FY 2021 corporate tax rate (4.0%) and that would generate roughly \$17,143 in annual revenues. If the interest earned on reserves deposits is exempt under chapter 143, Missouri could see a decrease in annual revenues in an amount up to \$17,143 in fiscal year 2021.

The Federal Reserve Bank of Kansas City includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming and portions of Missouri and New Mexico. According to the 2017 Independent Auditor's Report, the Federal Reserve Bank of Kansas City paid \$10 million dollars in interest to the regional depository institutions.

Seven states make reserve deposits into the Federal Reserve Bank of Kansas City. The Federal Reserve Bank of Kansas City is paying an estimated total of \$1,428,571 in interest to Missouri depository institutions. $(10,000,000/7)$. Multiply that amount by Missouri's FY2021 corporate tax rate (4.0%) and that would generate roughly \$57,142 in annual revenues. If the interest earned on reserves deposits is exempt under chapter 143, Missouri could see a decrease in annual revenues in an amount up to \$57,142 in fiscal year 2021.

ASSUMPTION (continued)

This is a high estimate since this is assuming all corporations are currently including interest earned on reserve deposits as income on their corporate return. Line 1a on the MO-1120 Corporate Income Tax Return allows for a subtraction of interest from exempt federal obligation. A schedule, which is prepared by the company, is required. Due to the unregulated and discretionary nature of the schedules, the Department is unable to determine if interest earned on reserve deposits is included within line 1a. The Department assumes that some banks schedule the Federal Reserve deposit interest as exempt from corporate income tax and some report the interest as part of their taxable income.

Oversight verified the data supplied by B&P and DOR as to the amount of interest paid. However, Oversight notes there was a large difference in the amount paid in interest each fiscal year partially based on the changing interest rate set by the Federal Reserve Bank. In St. Louis the interest paid in FY 2017 was \$3 million but it was only \$2 million in FY 2016. In Kansas City the interest paid in FY 2017 was \$10 million when it was only \$4 million in FY 2016. Due to the changing interest rates and deposit amounts, there could continue to be a significant difference yearly in interest paid and therefore, Oversight will show a range in the fiscal note.

Oversight was also unable to verify the split of the interest among the various states. Oversight will use the methodology used by B&P and DOR of dividing the interest equally among the states. Oversight notes the corporate rate is 6.25% for FY 2020 and decreases to 4% for FY 2021 and beyond. Oversight calculated the interest as follows:

FY 2020

St. Louis $\$2,000,000/7 \times 6.5\% = \$18,571$
St. Louis, $\$3,000,000/7 \times 6.5\% = \$27,857$

FY 2021

St. Louis $\$2,000,000/7 \times 4\% = \$11,429$
St. Louis $\$3,000,000/7 \times 4\% = \$17,143$

FY 2020

Kansas City $\$4,000,000/7 \times 6.25\% = \$35,714$
Kansas City $\$10,000,000/7 \times 6.25\% = \$89,286$

FY 2021

Kansas City $\$4,000,000/7 \times 4\% = \$22,857$
Kansas City $\$10,000,000/7 \times 4\% = \$57,143$

ASSUMPTION (continued)

Oversight will show the impact in FY 2020 as \$54,285 (\$18,571 + \$35,714) to \$117,143 (\$27,857 + \$89,286) and will show in FY 2021 and beyond as \$34,286 (\$11,429 + \$22,857) to \$74,286 (\$17,143 + \$57,143).

§144.021, §144.123 and §144.595 Online Sales Tax Collection

Officials at the **B&P** assume §144.021 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.

B&P and 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 state-by-state estimates 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 and use 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 and use tax base. B&P notes that using growth in the full e-commerce market would overestimate the sales and use tax base as services and digital download products are not currently taxable in Missouri.

ASSUMPTION (continued)

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 in calendar year 2020 Missouri could gain up to \$93.3 million to \$142.5 million in total state revenues, of which \$66.2 million to \$101.2 million would be General Revenue. By calendar year 2023, B&P and DOR estimate that total state revenues could be increased by \$110.2 million to \$168.3 million, of which \$78.2 million to \$119.5 million would be General Revenue. Table 1 shows the estimated impact by calendar year.

Table 1: New Sales Tax Collections by **Calendar Year** (figures in millions)

Revenue Estimates	2020		2021		2022		2023	
	Low	High	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth, & Threshold	\$184.0	\$281.1	\$197.7	\$302.0	\$209.0	\$319.3	\$217.3	\$332.0
GR (approx 36% of total collections)	\$66.2	\$101.2	\$71.1	\$108.8	\$75.3	\$115.0	\$78.2	\$119.5
Education	\$22.1	\$33.7	\$23.7	\$36.2	\$25.1	\$38.3	\$26.1	\$39.8
Conservation	\$2.8	\$4.2	\$3.0	\$4.5	\$3.1	\$4.8	\$3.3	\$5.0
Parks, Soil, Water	\$2.2	\$3.4	\$2.4	\$3.6	\$2.5	\$3.8	\$2.6	\$4.0
TSR	\$93.3	\$142.5	\$100.2	\$153.1	\$106.0	\$161.9	\$110.2	\$168.3
Local	\$90.7	\$138.6	\$97.5	\$148.9	\$103.0	\$157.4	\$107.1	\$163.7

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.

ASSUMPTION (continued)

B&P and DOR estimate that in fiscal year 2020 Missouri could gain up to \$50.1 million to \$76.6 million in total state revenues, of which \$35.6 million to \$54.4 million would be General Revenue. By fiscal year 2023, B&P and DOR estimate that total state revenues could be increased by \$110.2 million to \$168.3 million, of which \$78.2 million to \$119.5 million would be General Revenue. Table 2 shows the estimated impact by fiscal year.

Table 2: New Sales Tax Collections by **Fiscal Year** (figures in millions)

Revenue Estimates	2020		2021		2022		2023	
	Low	High	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth, and Threshold	\$98.85	\$151.0	\$197.7	\$302.0	\$209.0	\$319.3	\$217.3	\$332.0
GR (approx 36% of total collections)	\$35.6	\$54.4	\$71.1	\$108.8	\$75.3	\$115.0	\$78.2	\$119.5
Education	\$11.9	\$18.1	\$23.7	\$36.2	\$25.1	\$38.3	\$26.1	\$39.8
Conservation	\$1.5	\$2.3	\$3.0	\$4.5	\$3.1	\$4.8	\$3.3	\$5.0
Parks, Soil, Water	\$1.2	\$1.8	\$2.4	\$3.6	\$2.5	\$3.8	\$2.6	\$4.0
TSR	\$50.1	\$76.6	\$100.2	\$153.1	\$106.0	\$161.9	\$110.2	\$168.3
Local	\$48.7	\$74.4	\$97.5	\$148.9	\$103.0	\$157.4	\$107.1	\$163.7

Section 144.123 requires DOR to create, maintain, and provide a database that assigns each nine-digit and five-digit zip code with the lowest combined local tax rate for that zip code. Vendors are required to use the database in determining the amount of use tax to collect and remit. DOR may provide an address level database with the corresponding tax rate for each address. If such a database is created, vendors must use the address level database in lieu of the zip code database when determining the amount of use tax to collect and remit. Once DOR has created a zip code level database, they may also certify address-based databases provided by third party vendors. Vendors may then choose whether to use the DOR provided zip code database or the third party certified address-based database. Any and all databases created, maintained, or certified by DOR must be provided at no cost to vendors for their use in collecting and remitting use taxes.

B&P notes that using the lowest combined local tax rate may reduce the local sales tax collections estimated for online sales (as shown above in the previous tables).

ASSUMPTION (continued)

Section 144.595 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 Section 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.

Officials at the **DOR** assume in addition to the joint research with B&P noted in their response, the Department 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 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 ($\$6 \text{ million total sales} * 1.6\% \text{ MO GDP} = \$96,000 \text{ Missouri sales}$). 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 Technician I's (\$24,360) to process the additional returns, 1 Revenue Processing Technician I (\$24,360) to answer additional correspondence and 2 Revenue Processing Technician 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. 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 need 2 additional Auditors in the Training Section, to perform discovery work needed to identify potential audit leads from non-registered businesses.

ASSUMPTION (continued)

Oversight will show the need for the DOR FTE and mailing costs in the fiscal note. This proposal becomes effective on January 1, 2020 and therefore the fiscal note will reflect six months of FTE expenses in FY 2020.

Officials at the **Missouri Department of Transportation** defers to Department of Revenue for fiscal impact.

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

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 rate 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.

§144.030 Sales Tax Exemptions

Officials at the **B&P** assume this section includes a new exemption for kidney dialysis equipment and enteral feeding systems. B&P notes that this will have a minimal negative impact on Total State Revenue and General Revenue.

This section also includes a sales tax exemption for usual and customary delivery charges. B&P notes that SB 16 (2016) already exempted delivery charges from sales tax. Therefore, B&P estimates that this provision will not impact Total State Revenue or General Revenue.

§144.049 Back-to-School Sales Tax Holiday

Officials at the **B&P** assume this section removes the current \$50 per purchase limit on qualifying school supply purchases during the school tax holiday, removes the \$150 taxable limit for graphing calculators, and creates a \$1,500 per item, rather than the current per purchase, limit on computers and computer supplies. B&P notes that this will have a minimal negative impact on Total State Revenue.

ASSUMPTION (continued)

B&P also notes that this section no longer allows local municipalities to opt out of the school tax holiday. This will reduce revenues in all localities that currently opt out of the sales tax holiday. In tax year 2017, the most recent year data is available, local sales tax collections for qualifying items during the holiday totaled \$0.7 million. Therefore, B&P estimates that this provision could reduce funds to localities that had previously opted-out of the sales tax holiday by \$0.7 million beginning in FY 2021.

Officials at the **DOR** assume this would eliminate opt out provisions for political jurisdictions that wish not to participate in the Back-to-School sales tax holiday. The Department in TY 2017 collected an estimated \$700,000 from the jurisdictions that currently opt out of this holiday. This decrease in revenue will occur at the local jurisdictions that currently opt out.

Oversight notes this proposal becomes effective January 1, 2020. The Back-to-School sales tax holiday is in August and therefore will have occurred in FY 2020 prior to this proposal becoming effective. Therefore, Oversight will not show a fiscal impact in FY 2020.

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

§144.054 Manufacturing Sales Tax Exemption

Officials at the **B&P** assume this section would expand the manufacturing sales tax exemption to include local sales tax. In tax year 2017, the most recent year data is available, there were \$869.5 million in taxable sales, with local sales tax collections of \$33.6 million. Therefore, B&P estimates that this section will reduce local sales tax collections by \$16.8 million (\$33.6 million/2) during FY 2020. Once fully implemented in FY 2021, and annually thereafter, this section will reduce local sales tax collections by \$33.6 million.

Officials at the **DOR** assume this would end the manufacturing exemption from the exemption for local jurisdictions. The Department tracked an estimated \$869.5 million in taxable sales that came from manufacturing. Taking the total taxable sales by the population weighted average local sales tax rate for Missouri (3.86%) would have an estimated revenue decrease to the local jurisdictions by \$33.6 million.

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

§144.526 Show-Me-Green Sales Tax Holiday

Officials at the **B&P** assume this section no longer allows local municipalities to opt out of the Show Me Green sales tax holiday. This will reduce revenues in all localities that currently opt-out of this sales tax holiday.

ASSUMPTION (continued)

In tax year 2017, the most recent year data was available, local sales tax collections for qualifying items during the holiday totaled \$0.04 million. Therefore, B&P estimates that this provision could reduce funds to localities that had previously opted-out of the sales tax holiday by \$0.04 million beginning in FY 2020.

Officials at the **DOR** assume this would eliminate opt out provisions for political jurisdictions that wish not to participate in the Show-Me-Green sales tax holiday. The Department in TY 2017 collected an estimated \$40,000 from the jurisdictions that currently opt out of this holiday. This decrease in revenue will occur at the local jurisdictions that currently opt out.

Oversight notes this proposal becomes effective January 1, 2020. The Show-Me-Green sales tax holiday is in April and therefore will occur in FY 2020.

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

§144.517 - Textbooks Sales Tax Exemption

Officials at the **B&P** assume this proposal would repeal §144.517 which contains the state sales tax exemption for textbooks. Based on information provided by DOR, the textbook sales tax exemption reduced state revenues by \$3.5 million during FY 2018. Therefore, B&P estimates this provision will increase Total State Revenue by \$1.9 million and General Revenue by \$1.3 million in FY 2020. Once fully implemented in FY 2021, and annually thereafter, this provision will increase Total State Revenue by \$3.5 million and General Revenue by \$2.5 million.

Officials at the **DOR** assume this removes textbooks from being exempt from state sales tax. The Department recorded and estimated \$82.7 million in textbook sales for FY 2018. Taking the total sales by the state sales tax rate of 4.225%, the Department estimates this proposed section will increase Total State Revenue by \$3.5 million.

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

§144.710 Use Tax Timely Filing Discount

Officials at the **B&P** assume this section replaces the use tax timely filing discount with the sales tax timely filing discount. B&P notes that under current law, both discounts are the same rate and have the same requirement terms. Therefore, B&P estimates that this section will not impact Total State Revenue or the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

Bill as a Whole

Officials at the **Jackson County Board of Election Commissioners** and the **St. Louis County Board of Election Commissioners** each assume there is no fiscal impact from this proposal to their organization.

Officials at the **Wellsville-Middleton R-I School District** assume an unknown potentially positive impact to the district.

Officials at the **Kirksville R-III School District** responded to Oversight's request but did not indicate a fiscal impact.

SUMMARIES

B&P Summary

In total, **B&P** estimates that this proposal will reduce Total State Revenue by \$37.4 million to \$63.9 million and General Revenue by \$60.2 million to \$79.1 million in FY 2020. Once fully implemented (FY 2023) this proposal may decrease Total State Revenue by \$106.1 million to \$164.2 million and General Revenue by \$155.9 million to \$197.2 million annually. The following tables show the revenue impacts per provision and the impacts to each state fund.

Table 1: Revenue Impact by Provisions To All State Funds (figures in millions)

State Impacts	FY 2020	FY 2021	FY 2022	Fully Implemented (FY23)
Individual Income Tax Reduction	(117.2)	(279.1)	(279.7)	(280.4)
Online Sales Tax Collection	50.1 to 76.6	100.2 to 153.1	106.0 to 161.9	110.2 to 168.3
Subtraction for Federal Reserve Interest	0.00	(0.07)	(0.07)	(0.07)
DOR Collection Fee	1.3	2.6	2.6	2.6
Kidney Dialysis Equip & Enteral Feeding System	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed	(Min)	(Min)	(Min)	(Min)
Textbook Sales Tax Exemption - Repealed	1.9	3.5	3.5	3.5
Total Estimated Impact to State Revenues	(\$37.4) to (\$63.9)	(\$120.0) to (\$172.9)	(\$111.8) to (\$167.7)	(\$106.1) to (\$164.2)

ASSUMPTION (continued)

Local Impacts	FY 2020	FY 2021	FY 2022	Fully Implemented (FY23)
Online Sales Tax Collection	48.7 to 74.4	97.5 to 148.9	103.0 to 157.4	107.1 to 163.7
DOR Collection Fee	(1.3)	(2.6)	(2.6)	(2.6)
Kidney Dialysis Equip & Enteral Feeding Systems	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed (Prev. Not Opted Out)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed (Prev. Not Opted Out)	(Min)	(Min)	(Min)	(Min)
Back-to-School Sales Tax Holiday (Prev. Opted Out)	0.0	(0.7)	(0.7)	(0.7)
Manufacturing Sales Tax Exemption	(16.8)	(33.6)	(33.6)	(33.6)
Show-Me Green Sales Tax Holiday (Prev. Opted Out)	(0.04)	(0.04)	(0.04)	(0.04)
Total Estimated Impact to Local Revenues	\$30.6 to \$56.3	\$60.6 to \$112.0	\$66.1 to \$120.5	\$70.2 to \$126.8

*Section 144.123.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.

Table 2: Revenue Impact by State Fund (figures in millions)

State Funds	FY 2020		FY 2021		FY 2022		Fully Implemented (FY23)	
	Low	High	Low	High	Low	High	Low	High
General Revenue	(\$79.1)	(\$60.2)	(\$203.0)	(\$165.3)	(\$199.4)	(\$159.7)	(\$197.2)	(\$155.9)
Education	\$12.3	\$18.5	\$24.5	\$37.0	\$25.9	\$39.1	\$26.9	\$40.6
Park, Soil, Water	\$1.3	\$1.9	\$2.5	\$3.7	\$2.6	\$3.9	\$2.7	\$4.1
Conservation	\$1.6	\$2.4	\$3.1	\$4.6	\$3.2	\$4.9	\$3.4	\$5.1
Total	(\$63.9)	(\$37.40)	(\$172.90)	(120.0)	(\$167.7)	(\$111.8)	(\$164.20)	(\$106.1)

ASSUMPTION (continued)

Total State Revenue Impact (TSR):

Sections 32.070, 144.054, 144.526, and 144.710 will not impact TSR.

B&P estimates that §32.086 will increase TSR by \$2.6M annually, once fully implemented.

B&P estimates that §143.011 will reduce TSR by \$280.4M annually, once fully implemented.

B&P estimates that §143.121 could reduce TSR by less than \$74,000 annually beginning in FY 2021.

B&P estimates that §§144.021, 144.123, and 144.595 will increase TSR by \$110.2M to \$168.3M annually, once fully implemented. B&P notes, however, that the TSR impact from Sections 144.021, 144.123, and 144.595 is only due to a clarification to the base pursuant to the United States Supreme Court ruling in *Wayfair vs. South Dakota* (2018). B&P estimates that §144.030 and §144.049 will have a minimal negative impact on TSR. B&P estimates that §144.517 will increase TSR by \$3.5M annually, once fully implemented.

Therefore, B&P estimates that the net reduction to Total State Revenue from this proposal is \$106.1 million to \$164.2 million annually once fully implemented. B&P notes, however, that the Total State Revenue impact from Sections 144.021, 144.123, and 144.595 is only due to a clarification to the base pursuant to the United States Supreme Court ruling in *Wayfair vs. South Dakota* (2018).

Article X, Section 18(e)

Sections 32.070, 144.054, 144.526, and 144.710 will not impact the calculation under Article X, Section 18(e).

Section 32.086 will increase the calculation under Article X, Section 18(e) by \$2.6M annually, one fully implemented.

Section 143.011 will reduce the calculation under Article X, Section 18(e) by \$280.4M annually, once fully implemented.

Section 143.121 could reduce the calculation under Article X, Section 18(e) by less than \$74,000 annually beginning in FY21.

Sections 144.021, 144.123, and 144.595 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.

Sections 144.030 and 144.049 will have a minimal negative impact on the calculation under Article X, Section 18(e).

Section 144.517 will increase the calculation under Article X, Section 18(e) by \$3.5M annually, once fully implemented.

ASSUMPTION (continued)

Therefore, this proposal will reduce the calculation under Article X, Section 18(e) by \$274.4M annually, once fully implemented.

Officials at the **DOR** assume the following impact to all State Funds:

State Impact	FY 2020	FY 2021	FY 2022	Fully Implemented FY 2023
§144.021 & §144.595 Online Sales Tax Collection	\$50,100,000 to \$76,600,000	\$100,200,000 to \$153,100,000	\$106,000,000 to \$161,900,000	\$110,000,000 to \$168,300,000
§143.011 Individual Income Tax Reduction	(\$138,865,252)	(\$277,819,329)	(\$278,309,344)	(\$278,986,031)
§32.086 Sales Tax Collection Fee	\$1,218,884	\$2,437,768	\$2,437,768	\$2,437,768
§143.121 Federal Reserve Interest Subtraction	\$0	(\$74,285)	(\$74,285)	(\$74,285)
§144.517 Repeal of Textbook Sales Tax Exemption	\$1,900,000	\$3,500,000	\$3,500,000	\$3,500,000
Total	(\$59,100,000 - \$85,600,000)	(\$118,800,000 - \$171,700,000)	(\$110,500,000 - \$166,400,000)	(\$104,800,000 - \$163,100,000)

ASSUMPTION (continued)

Local Impact	FY 2020	FY 2021	FY 2022	Fully Implemented FY 2023
§144.021 & §144.595 Online Sales Tax Collection	\$48,700,000 - \$74,400,000	\$97,500,000 - \$148,900,000	\$103,000,000 - \$157,400,000	\$107,100,000 - \$163,700,000
§32.086 Sales Tax Collection Fee	(\$1,218,884)	(\$2,437,768)	(\$2,437,768)	(\$2,437,768)
§144.049 Back-to-School Sales Tax Holiday (Previously Opted Out)	\$0	(\$700,000)	(\$700,000)	(\$700,000)
§144.526 Show-Me-Green Sales Tax Holiday (Previously Opted Out)	(\$40,000)	(\$40,000)	(\$40,000)	(\$40,000)
§144.054 Manufacturing Exemption	(\$16,800,000)	(\$33,600,000)	(\$33,600,000)	(\$33,600,000)
Total	\$30,641,116 - \$56,341,116	\$60,722,232 - \$112,122,232	\$66,222,232 - \$120,622,232	\$70,322,232 - \$126,922,232

State Funds	FY20		FY21		FY22		FY23	
	Low	High	Low	High	Low	High	Low	High
General Revenue	(\$78.5)	(\$59.7)	(\$201.8)	(\$164.2)	(\$198.2)	(\$158.5)	(\$196.0)	(\$154.6)
Education	\$12.3	\$18.6	\$24.5	\$37.1	\$25.9	\$39.1	\$26.9	\$40.7
Park, Soil, Water	\$1.2	\$1.9	\$2.5	\$3.7	\$2.6	\$3.9	\$2.7	\$4.1
Conservation	\$1.5	\$2.3	\$3.1	\$4.6	\$3.2	\$4.9	\$3.4	\$5.1

ASSUMPTION (continued)

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.

FISCAL IMPACT -
State Government

	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
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**GENERAL
REVENUE**

Cost - DOR §32.070
 2- RPT, 1- MAS,
 page 4

Personal Service	(\$43,512)	(\$87,894)	(\$88,773)	(\$89,661)
Fringe Benefits	(\$32,176)	(\$64,617)	(\$64,885)	(\$65,156)
Equip & Exp	<u>(\$23,362)</u>	<u>(\$1,473)</u>	<u>(\$1,509)</u>	<u>(\$1,547)</u>
<u>Total Cost -</u>	<u>(\$99,050)</u>	<u>(\$153,984)</u>	<u>(\$155,167)</u>	<u>(\$156,364)</u>
FTE Change	3 FTE	3 FTE	3 FTE	3 FTE

Cost - DOR §32.070
 computer
 programming page 4

	(\$676,000)	\$0	\$0	\$0
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Revenue - DOR
 §32.086 DOR 1%
 Collection Fee
 page 6

	\$1,302,892	\$2,605,783	\$2,605,783	\$2,605,783
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Revenue Reduction -
 DOR §143.011
 individual income
 tax rate reduction
 page 7 - 10

	Unknown to (Unknown) or (\$117,200,000)	Unknown to (Unknown) or (\$279,100,000)	Unknown to (Unknown) or (\$279,700,000)	Unknown to (Unknown) or (\$280,400,000)
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Revenue Reduction -
 DOR - §143.121 -
 subtraction of
 interest on deposits
 held at the Federal
 Reserve from
 Adjusted Gross
 Income page 13

	(\$54,285 to \$117,143)	(\$34,286 to \$74,286)	(\$34,286 to \$74,286)	(\$34,286 to \$74,286)
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<u>FISCAL IMPACT -</u> <u>State Government</u> (continued) GR (continued)	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
<u>Revenue - DOR</u> §144.021 Online Sales Tax Collection page 15	Unknown to (Unknown) or \$35,600,000 to \$54,400,000	Unknown to (Unknown) or \$71,100,000 to \$108,800,000	Unknown to (Unknown) or \$75,300,000 to \$115,000,000	Unknown to (Unknown) or \$78,200,000 to \$119,500,000
<u>Cost - DOR</u> §144.021 - 6 RPT & 27- Auditors page 16-17				
Personal Service	(\$615,130)	(\$1,242,563)	(\$1,254,988)	(\$1,267,538)
Fringe Benefits	(\$395,528)	(\$794,805)	(\$798,591)	(\$802,415)
Equip & Exp	<u>(\$256,977)</u>	<u>(\$16,202)</u>	<u>(\$16,607)</u>	<u>(\$17,022)</u>
<u>Total Cost -</u>	<u>(\$1,267,635)</u>	<u>(\$2,053,570)</u>	<u>(\$2,070,186)</u>	<u>(\$2,086,975)</u>
FTE Change	33 FTE	33 FTE	33 FTE	33 FTE
<u>Cost - DOR</u> §144.021 mailing page 16-17	(\$100,000)	\$0	\$0	\$0
<u>Revenue - DOR</u> §144.517 repeal of textbook sales tax exemption page 20	<u>\$1,300,000</u>	<u>\$2,500,000</u>	<u>\$2,500,000</u>	<u>\$2,500,000</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE *	<u>(\$62,456,936 to \$81,194,078)</u>	<u>(\$167,476,057 to \$205,136,057)</u>	<u>(\$161,893,856 to \$201,553,856)</u>	<u>(\$158,111,842 to \$199,371,842)</u>

Estimated Net FTE
 Change on General
 Revenue

36 FTE	36 FTE	36 FTE	36 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 and DOR's revenue estimates for the changes to the tax rates.**

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
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**SCHOOL
 DISTRICT TRUST
 FUND**

<u>Revenue - DOR</u> §144.021 Online Sales Tax Collection page 15	\$11,900,000 to \$18,100,000	\$23,700,000 to \$36,200,000	\$25,100,000 to \$38,300,000	\$26,100,000 to \$39,800,000
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<u>Revenue - DOR</u> §144.517 repeal of textbook sales tax exemption page 20	<u>\$400,000</u>	<u>\$800,000</u>	<u>\$800,000</u>	<u>\$800,000</u>
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**ESTIMATED NET
 EFFECT ON
 SCHOOL
 DISTRICT TRUST
 FUND ***

<u>\$12,300,000 to</u> <u>\$18,500,000</u>	<u>\$24,500,000 to</u> <u>\$37,000,000</u>	<u>\$25,900,000 to</u> <u>\$39,100,000</u>	<u>\$26,900,000 to</u> <u>\$40,600,000</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 and DOR's revenue estimates for the changes to the tax rates.**

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
CONSERVATION COMMISSION FUNDS				
<u>Revenue - DOR</u>				
§144.021 Online Sales Tax Collection page 15	\$1,500,000 to \$2,300,000	\$3,000,000 to \$4,500,000	\$3,100,000 to \$4,800,000	\$3,300,000 to \$5,000,000
<u>Revenue - DOR</u>				
§144.517 repeal of textbook sales tax exemption page 20	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUNDS *				
	<u>\$1,600,000 to</u> <u>\$2,400,000</u>	<u>\$3,100,000 to</u> <u>\$4,600,000</u>	<u>\$3,200,000 to</u> <u>\$4,900,000</u>	<u>\$3,400,000 to</u> <u>\$5,100,000</u>

*** 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 for the changes to the tax rates.**

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (6 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
PARK, SOIL & WATER FUNDS				
<u>Revenue - DOR</u>				
§144.021 Online Sales Tax Collection page 15	\$1,200,000 to \$1,800,000	\$2,400,000 to \$3,600,000	\$2,500,000 to \$3,800,000	\$2,600,000 to \$4,000,000
Revenue - DOR §144.517 repeal of textbook sales tax exemption page 20	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>	<u>\$100,000</u>
ESTIMATED NET EFFECT ON PARK, SOIL & WATER FUNDS *	<u>\$1,300,000 to</u> <u>\$1,900,000</u>	<u>\$2,500,000 to</u> <u>\$3,700,000</u>	<u>\$2,600,000 to</u> <u>\$3,900,000</u>	<u>\$2,700,000 to</u> <u>\$4,100,000</u>

*** 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 for the changes to the tax rates.**

<u>FISCAL IMPACT -</u> <u>Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
LOCAL POLITICAL SUBDIVISION FUNDS				
<u>Revenue Reduction -</u> DOR §32.086 DOR 1% Collection Fee page 6	(\$1,302,892)	(\$2,605,783)	(\$2,605,783)	(\$2,605,783)

<u>FISCAL IMPACT -</u> <u>Local Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2023)
LPS FUNDS (continued)				
<u>Revenue - DOR</u>				
§144.021 Online Sales Tax Collection page 15	\$48,700,000 to \$74,400,000	\$97,500,000 to \$148,900,000	\$103,000,000 to \$157,400,000	\$107,100,000 to \$163,700,000
<u>Revenue Reduction -</u>				
DOR §144.049 No Longer Opt Out of Back-To-School Sales Tax Holiday page 18	\$0	(\$700,000)	(\$700,000)	(\$700,000)
<u>Revenue Reduction -</u>				
DOR §144.054 Manufacturing Sales Tax Exemption page 18	(\$16,800,000)	(\$33,600,000)	(\$33,600,000)	(\$33,600,000)
<u>Revenue Reduction -</u>				
DOR §144.526 No Longer Opt Out of Show-Me-Green Sales Tax Holiday page 19	(\$40,000)	(\$40,000)	(\$40,000)	(\$40,000)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION FUNDS *				
	<u>\$30,557,108 to</u> <u>\$56,257,108</u>	<u>\$60,554,217 to</u> <u>\$111,954,217</u>	<u>\$66,054,217 to</u> <u>\$120,454,217</u>	<u>\$70,154,217 to</u> <u>\$126,754,217</u>

* 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 IMPACT - Small Business

The proposed legislation allows the state to enter the Streamlined Sales and Use Tax Agreement, which may allow Missouri to collect use tax from out-of-state sellers that compete with Missouri small businesses. This legislation could benefit local Missouri businesses who will no longer be at a disadvantage when competing with remote sellers who do not have to collect and remit sales or use taxes.

This proposal will impact small businesses through multiple changes to the sales tax code. This proposal will impact small pass-through businesses by reducing the top rate of individual income tax. This proposal may impact small banks, if they are not already claiming the federal interest tax deduction.

This act modifies several provisions relating to taxation.

INDIVIDUAL INCOME TAX - Current law provides for a reduction in the top rate of income tax over a period of years from 6% to 5.5%, with each cut becoming effective if net general revenue collections meet a certain trigger, with an additional reduction in the top rate of tax of 0.4% to take effect in the 2019 calendar year. For all tax years beginning on or after January 1, 2020, this act further reduces the top rate of tax by 0.3%, with an eventual top rate of tax of 4.8%. (§143.011)

This act exempts interest received on deposits held at a federal reserve bank from Missouri adjusted gross income. (§143.121)

SALES TAX ECONOMIC NEXUS - Beginning January 1, 2020, this act provides that all sellers without a physical presence in this state making sales of tangible personal property for delivery into this state shall be required to collect and remit any sales tax due as if such seller maintained a physical presence in the state. This provision shall only apply to sellers who either make at least \$100,000 in gross revenue from the delivery of tangible personal property into this state, or who make sales of tangible personal property in 200 or more separate transactions in the previous or current calendar year.

No obligation to collect and remit sales tax under this provision shall be applied prior to January 1, 2020. (§144.021)

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

FISCAL DESCRIPTION (continued)

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 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. (§144.595)

STREAMLINED SALES AND USE TAX AGREEMENT - Under this act, the Department of Revenue shall enter into the Streamlined Sales and Use Tax Agreement (SSUTA). The state shall be represented by four delegates in meetings with other states regarding the Agreement. One delegate shall be appointed by the Governor, one shall be a member of the General Assembly appointed by the President Pro Tem of the Senate, one shall be a member of the General Assembly appointed by the Speaker of the House of Representatives, and one shall be the Director of the Department of Revenue or his or her designee. These delegates shall report annually to the General Assembly regarding the Agreement. (§32.070)

Any local sales tax changes due to a boundary change shall take effect on the first day of the calendar quarter 120 days after the sellers receive notice of the change.

The effective date for the imposition, repeal, or rate change of each local sales and use tax shall be the first day of the calendar quarter at least 120 days after the sellers receive notice of the change. (§32.087)

This act makes changes to several sections of law relating to local sales taxes in order to make language consistent across sections and to make such sections compliant with the SSUTA. (§66.601 to §94.705, §184.845, §221.407, §238.235, §238.410, §644.032)

The act adds several definitions relating to the application of the sales tax law in order to make interpretation of said sales tax law compliant with the SSUTA. (§144.010)

Certain exemptions from state sales tax are modified to be in compliance with the SSUTA. (§144.030)

FISCAL DESCRIPTION (continued)

The school and Show Me Green sales tax holidays are modified by removing the fifty-dollar per purchase limit on school supplies, by repealing the ability for political subdivisions to opt out of the sales tax holidays, and by defining how the sales tax exemption applies to the purchase or return of certain items. (§144.049 and §144.526)

This act relieves a purchaser from any penalties for failure to pay the proper amount of sales tax if the error was a result of erroneous information provided by the Director of Revenue. (§144.060)

The Director of Revenue shall promulgate a rule allowing for the issuance of a direct pay permit to purchasers, which would allow the purchaser to purchase goods and services without remitting payment of the tax to the seller at the time of purchase. Such purchaser shall determine the amount owed and remit such amount directly to the taxing jurisdiction. (§144.079)

The Director of Revenue shall participate in an on-line registration system that will allow sellers to register in this state and other member states. Registering in the system obligates the seller to collect and remit sales and use taxes for all taxable sales into this state as well as the other member states. Registration in the system shall not be used as a factor for determining nexus with this state. (§144.082)

The Director shall promulgate rules for the remittance of returns, which shall include an allowance for electronic payments and simplified electronic returns, as described in the act. (§144.084)

A certified service provider, as defined in the act, shall not be certified unless it meets certain requirements relating to the security and privacy of purchasers' information, as described in the act. (§144.109)

This act provides uniform sourcing rules for all purchases made in this state. For purchases for which the location where the order is received by the seller and the purchaser receives the product are both in Missouri, the sale shall be sourced to the location where the order is received by the seller, as described in the act. For purchases for which the location where the order is received by the seller and the purchaser receives the product are in different states, the sale shall be sourced to the location where receipt by the purchaser occurs, as described in the act. All sales of motor vehicles, trailers, semi-trailers, watercraft, outboard motors, and aircraft shall be sourced to the address of the owner. For the lease or rental of tangible personal property that requires recurring periodic payments, the first periodic payment shall be sourced to where the order is received by the seller. All subsequent payments shall be sourced to the primary property

FISCAL DESCRIPTION (continued)

location for the property, as described in the act. For the lease or rental of tangible personal property that does not require recurring periodic payments, the payment shall be sourced to the location where receipt by the purchaser occurs. (§144.111)

The sale of certain telecommunications service, including internet, mobile telecommunications service, and ancillary service, shall be sourced to the customer's place of primary use. (§144.114)

The Director shall provide and maintain downloadable electronic databases at no cost to the user of the databases for taxing jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services. Sellers will be relieved from liability if they fail to properly collect tax based upon certain information provided by the department. (§144.123 and §144.124)

Amnesty for uncollected or unpaid sales or use tax shall be granted for sellers under certain circumstances following registration with the state, as described in the act. (§144.125)

This act provides that a cause of action against a seller by a purchaser for a tax erroneously or illegally collected shall not accrue until the purchaser has provided written notice to a seller and the seller has had sixty days to respond. A seller shall be presumed to have a reasonable business practice if in the collection of such tax the seller uses a provider or a system certified by the Director of Revenue and has remitted all tax collected. (§144.190)

Monetary allowances from taxes collected shall be provided to certain sellers and certified service providers for collecting and remitting state and local taxes, as described in the act. (§144.140)

When an exemption is claimed by a purchaser, a seller shall be required to collect certain information, as described in the act. A seller shall be relieved from collecting and remitting tax if it is determined that the purchaser improperly claimed an exemption. Relief from liability shall not apply to a seller who fraudulently fails to collect tax, or sellers who otherwise improperly accept an exemption certificate, as described in the act. (§144.212)

This act repeals a provision which requires the Director to establish brackets showing the amounts of tax to be collected on sales of specified amounts. Instead, the tax computation shall be carried to the third decimal place, and the tax shall be rounded to a whole cent using a method that rounds up to the next cent whenever the third decimal place is greater than four. (§144.285).

FISCAL DESCRIPTION (continued)

This act provides that all provisions of law with respect to sales into the state by out-of-state sellers apply to the Compensating Use Tax Law. (§144.600)

EFFECTIVE DATE - This act shall become effective January 1, 2020.

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
Jackson County Board of Election Commissioners
Joint Committee on Administrative Rules
Kirksville R-III School District
Missouri Department of Transportation
Office of Administration Division of Budget and Planning
Office of the Secretary of State
Office of the State Treasurer
St. Louis County Board of Election Commissioners
University of Missouri's Economic and Policy Analysis Research Center
Wellsville-Middleton R-I School District



Kyle Rieman
Director
January 28, 2019

Ross Strope
Assistant Director
January 28, 2019