

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2353-01
Bill No.: SB 467
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 26, 2019

Bill Summary: This proposal provides a sales tax exemption for the production of electricity.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$6,300,000 to \$27,000,000)	(\$7,600,000 to \$32,400,000)	(\$7,600,000 to \$32,400,000)
Total Estimated Net Effect on General Revenue	(\$6,300,000 to \$27,000,000)	(\$7,600,000 to \$32,400,000)	(\$7,600,000 to \$32,400,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
School District Trust (0688)	(\$2,100,000 to \$9,000,000)	(\$2,500,000 to \$10,800,000)	(\$2,500,000 to \$10,800,000)
Conservation Commission (0609)	(\$300,000 to \$1,100,000)	(\$300,000 to \$1,300,000)	(\$300,000 to \$1,300,000)
Parks, Soil & Water (0613 & 0614)	(\$200,000 to \$900,000)	(\$300,000 to \$1,100,000)	(\$300,000 to \$1,100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$2,600,000 to \$11,000,000)	(\$3,100,000 to \$13,200,000)	(\$3,100,000 to \$13,200,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 9 pages

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal exempts from state sales and use tax various inputs to the utilities industry. These exemptions include the utilities, chemicals, machinery, equipment, supplies, parts and materials used by that industry. B&P notes that this proposal would not exempt such products from local sales taxes.

B&P assumes that the broad terms "parts and materials" exempt most inputs to production for the utilities.

DOR reports taxable sales in 2017 from various electrical utility related industries as shown below.

Method 1 - Lower Bound Estimates

Tax Type	SIC	NAICS	Description	CY 2017	Percent
Use	491, 493	221111	HYDROELECTRIC POWER GENERATION	\$35,183,779	100%
Use	491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$9,304,770	100%
Use	491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$15,208,711	100%
Use	491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$35,308,435	100%
Use	493	221210	NATURAL GAS DISTRIBUTION	\$13,635,263	100%
Sales	369	333318	Other Commercial and Service Industry Machinery Manufacturing	\$776,076	60%
Sales	364	335121	Residential Electric Lighting Fixture Manufacturing	\$21,814,665	100%
Sales	361	335311	Power, Distribution, and Specialty Transformer Manufacturing	\$19,860,292	100%
Sales	362	335312	Non MV Motor and Generator Manufacturing	\$17,445,567	100%
Sales	361	335313	Switchgear and Switchboard Apparatus Manufacturing	\$11,569,960	100%
Sales	362	335314	RELAY AND INDUSTRIAL CONTROL MANUFACTURING	\$218,435	100%

Tax Type	SIC	NAICS	Description	CY 2017	Percent
Sales	364	335931	Current-Carrying Wiring Device Manufacturing	\$2,548,956	100%
Sales	364	335932	Noncurrent-Carrying Wiring Device Manufacturing	\$10,708,117	100%
Sales	362, 369	335999	All Other Miscellaneous Electrical Equipment and Component Manufacturing	\$58,095,154	100%
Total Exempt Sales				\$251,678,180	

Based on this information, B&P estimates that this proposal could reduce Total State Revenue by \$10.6 million (\$251,678,180 x 4.225%) and General Revenue by \$7.6 million (\$251,678,180 x 3.0%) annually. B&P notes, however, that this method of estimation likely does not capture all the taxable sales that would become exempt under this proposal, and that this impact reflects the bottom of the range for the decrease in revenue.

In order to determine an upper-bound estimate for the reduction to state revenues, B&P utilized the US BEA Input-Output Use Tables . According to the Input-Output Use Tables, inputs from commodities that might qualify under these exemptions are roughly 24% of the total output of the "utilities" industry. In addition, DOR reports that taxable sales of electric related utilities in 2017 were about \$4,542.4 million. This suggests that this proposal might exempt \$1,078.7 million in taxable sales from taxation.

SIC	NAICS	Description	CY 2017
491, 493	221111	HYDROELECTRIC POWER GENERATION	\$1,885,332,950
491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$40,390,345
491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$26,977,313
491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$2,127,738,693
492, 493	221210	NATURAL GAS DISTRIBUTION	\$458,594,901
492	486210	PIPELINE TRANSPORTATION OF NATURAL GAS	\$3,407,409
Total Sales			\$4,542,441,611
BEA Input / Output Adjustment			23.7%
Total Exempt Sales			\$1,078,737,546

ASSUMPTION (continued)

B&P estimates that this would reduce Total State Revenue by \$45.6 million (\$1,078,737,546 x 4.225%) and General Revenue by \$32.4 million (\$1,078,737,546 x 3.0%) annually. B&P notes, however, that this method may overestimate the true reduction to state revenues by including items that would not become tax exempt under this proposal.

Therefore, using both the taxable sales reports provided by DOR and the US BEA Input-Output Use Tables, B&P estimates that this proposal could reduce Total State Revenue by \$10.6 million to \$45.6 million annually and General Revenue by \$7.6 million to \$32.4 million once fully implemented in FY 2021.

Table 3: State Impacts by Fund

Fund	FY 2020		FY 2021	
	Low	High	Low	High
General Revenue	(\$6.3)	(\$27.0)	(\$7.6)	(\$32.4)
School District Trust	(\$2.1)	(\$9.0)	(\$2.5)	(\$10.8)
Conservation Commission	(\$0.3)	(\$1.1)	(\$0.3)	(\$1.3)
Parks, Soil & Water	(\$0.2)	(\$0.9)	(\$0.3)	(\$1.1)
Total State Revenue Impact	(\$8.9)	(\$38.0)	(\$10.6)	(\$45.6)

Officials at the **Department of Revenue (DOR)** assume this proposal creates an exemption for electrical energy and gas, water, coal, and energy sources, chemicals, machinery, equipment, parts and materials used and consumed in the generation, transmission, distribution, sale, or furnishing of electricity for light, heat, or power to customers. This legislation specifically excludes local sales tax from the provisions of this section.

The Department is unable to determine the exact fiscal impact to Total State Revenue. However, based on refund claims from companies in a similar industry, the Department estimates a negative impact to total state revenue may be between \$15 and \$30 million annually.

This legislation does not create an impact requiring personnel or equipment; however, it does create a substantial decrease in Total State Revenue. The Collections & Tax Assistance Section notes this proposal creates additional contacts resulting from the exemption, but not significant to require more FTE. Collections & Tax Assistance needs to update online registration, paper

ASSUMPTION (continued)

applications, and the tax system (Revenue Premier) to accommodate the partial rate for registration and return processing/cashiering purposes, because the exemption does not apply to local tax.

Officials at the **Department of Conservation** assume an unknown fiscal impact on the Department but greater than \$100,000 negative fiscal impact. 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. Exempting electricity, gas, and the specified related infrastructure involved in the production or transmission of electricity to customers from tax will decrease sales tax collected and thus would decrease revenue to the Conservation Sales Tax funds. 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 that creating the sales tax exemption for the production of electricity could decrease the amount of funding available in the Parks and Soils Sales Tax Funds for long term operation of Missouri's state parks and historic sites and assistance to agricultural landowners through volunteer programs.

The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, the sales tax exemption could result in an unknown loss to the Parks and Soils Sales Tax Funds.

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.

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

ASSUMPTION (continued)

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.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Revenue Reduction</u> - DOR §144.058 sales tax exemption for the production of utilities	<u>(\$6,300,000 to \$27,000,000)</u>	<u>(\$7,600,000 to \$32,400,000)</u>	<u>(\$7,600,000 to \$32,400,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$6,300,000 to \$27,000,000)</u>	<u>(\$7,600,000 to \$32,400,000)</u>	<u>(\$7,600,000 to \$32,400,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - DOR §144.058 sales tax exemption for the production of utilities	<u>(\$2,100,000 to \$9,000,000)</u>	<u>(\$2,500,000 to \$10,800,000)</u>	<u>(\$2,500,000 to \$10,800,000)</u>
ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT TRUST FUND	<u>(\$2,100,000 to \$9,000,000)</u>	<u>(\$2,500,000 to \$10,800,000)</u>	<u>(\$2,500,000 to \$10,800,000)</u>
CONSERVATION COMMISSION FUNDS			
<u>Revenue Reduction</u> - DOR §144.058 sales tax exemption for the production of utilities	<u>(\$300,000 to \$1,100,000)</u>	<u>(\$300,000 to \$1,300,000)</u>	<u>(\$300,000 to \$1,300,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUNDS	<u>(\$300,000 to \$1,100,000)</u>	<u>(\$300,000 to \$1,300,000)</u>	<u>(\$300,000 to \$1,300,000)</u>

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022
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PARKS, SOIL & WATER FUNDS

<u>Revenue Reduction</u> - DOR §144.058 sales tax exemption for the production of utilities	<u>(\$200,000 to</u> <u>\$900,000)</u>	<u>(\$300,000 to</u> <u>\$1,100,000)</u>	<u>(\$300,000 to</u> <u>\$1,100,000)</u>
ESTIMATED NET EFFECT ON PARKS, SOIL & WATER FUNDS	<u>(\$200,000 to</u> <u>\$900,000)</u>	<u>(\$300,000 to</u> <u>\$1,100,000)</u>	<u>(\$300,000 to</u> <u>\$1,100,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Those who qualify for the sales tax exemption will be impacted.

FISCAL DESCRIPTION

This act creates a state sales tax exemption for utilities, equipment, and materials used to generate or transmit electricity.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



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March 26, 2019

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March 26, 2019