

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2412-01
Bill No.: SB 483
Subject: Taxation
Type: Original
Date: April 5, 2019

Bill Summary: This proposal modifies provisions relating to telecommunication taxes.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|-------------------------|-------------------------|-------------------------|
| FUND AFFECTED | FY 2020 | FY 2021 | FY 2022 |
| General Revenue | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |
| Total Estimated Net Effect on General Revenue | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|-------------------------|-------------------------|-------------------------|
| FUND AFFECTED | FY 2020 | FY 2021 | FY 2022 |
| School District Trust (0688) | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |
| Conservation Commission (0609) | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |
| Parks, Soil & Water (0613 & 0614) | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 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 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this amendment would require sales taxes to be applied to nontaxable telecommunications services if they are bundled with taxable telecommunications services, unless the provider can identify and verify the portion of the bundle that originated from nontaxable services. B&P notes that telecommunications providers may already be doing this. Therefore, B&P estimates that this amendment may have a \$0 to unknown impact on Total State Revenue. B&P defers to DOR for more detailed information.

This amendment may impact Total State Revenue by an unknown amount. This amendment may impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue (DOR)** assume that currently, §144.020 imposes a tax in an amount equal to 4% on the basic rate paid or charged on all sales of local and long distance telecommunications service to telecommunications subscribers and to others through equipment of telecommunications subscribers for the transmission of messages and conversations and upon the sale, rental or leasing of all equipment or services pertaining or incidental thereto; except that, the payment made by telecommunications subscribers or others, pursuant to §144.060, and any amounts paid for access to the internet or interactive computer services shall not be considered as amounts paid for telecommunications services.

The proposed legislation adds to §144.020 the following language, "If local and long distance telecommunications services subject to tax under this subdivision are aggregated with and not separately stated from charges for telecommunications service or other services not subject to tax under this subdivision, including, but not limited to, interstate or international telecommunications services, then the charges for nontaxable services may be subject to taxation unless the telecommunications provider can identify by reasonable and verifiable standards such portion of the charges not subject to such tax from its books and records that are kept in the regular course of business for other purposes, including, but not limited to, financial statement, general ledgers, invoice and billing systems and reports, and reports for regulatory tariffs and other regulatory matters."

While the statutory change in §144.020 is new, without audits the Department is unable to determine, based on the data we have, what, if any, impact the statutory change may have. The impact will be \$0 – (Unknown).

ASSUMPTION (continued)

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 **Public Service Commission** assume there is no fiscal impact from this proposal.

Officials at the **City of Kansas City** assume this may have a positive impact on the City to the extent a telecommunications provider can't identify charges that aren't covered in customer's bills.

Officials at the **City of Springfield** assume there is no fiscal impact from this proposal.

Officials at **St. Louis County** assume the impact is unknown.

ASSUMPTION (continued)

Currently, some telecommunications companies bundle their taxable and nontaxable services together and therefore, collect tax on the total cost of bundled services even if some of the services may have been nontaxable. This proposal establishes a way for a telecommunications companies to separate the taxable and nontaxable services and to only collect taxes on the taxable services. **Oversight** is unable to determine how many companies are currently collecting and may continue to collect taxes on bundled services; as well as how many will choose to separate their services and reduce the tax they collect. Oversight will show the impact as \$0 to Unknown loss to the state sales tax funds.

| | | | |
|---|---------------------|---------|---------|
| <u>FISCAL IMPACT - State Government</u> | FY 2020 (10 Mo.) | FY 2021 | FY 2022 |
|---|---------------------|---------|---------|

GENERAL REVENUE

| | | | |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| <u>Revenue Reduction</u> - DOR §144.020 reduction in sales tax collected if telecommunication companies are allowed to separate services | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|

| | | | |
|--|---|---|---|
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> |
|--|---|---|---|

SCHOOL DISTRICT TRUST FUND

| | | | |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| <u>Revenue Reduction</u> - DOR §144.020 reduction in sales tax collected if telecommunication companies are allowed to separate services | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> |
|---|-----------------------------------|-----------------------------------|-----------------------------------|

| | | | |
|---|---|---|---|
| ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT TRUST FUND | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> | <u>\$0 or</u> <u>(Unknown)</u> |
|---|---|---|---|

FISCAL IMPACT - State Government
(continuing)

FY 2020
(10 Mo.)

FY 2021

FY 2022

**CONSERVATION COMMISSION
FUND**

Revenue Reduction - DOR §144.020
reduction in sales tax collected if
telecommunication companies are
allowed to separate services

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

**ESTIMATED NET EFFECT ON THE
CONSERVATION COMMISSION
FUND**

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

PARKS, SOIL & WATER FUND

Revenue Reduction - DOR §144.020
reduction in sales tax collected if
telecommunication companies are
allowed to separate services

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

**ESTIMATED NET EFFECT ON THE
PARKS, SOIL & WATER FUND**

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

FISCAL IMPACT - Local Government

FY 2020
(10 Mo.)

FY 2021

FY 2022

LOCAL POLITICAL SUBDIVISION FUNDS

Revenue Reduction - Locals §144.020
reduction in sales tax collected if
telecommunication companies are
allowed to separate services

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION FUNDS

\$0 or
(Unknown)

\$0 or
(Unknown)

\$0 or
(Unknown)

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act provides that if telecommunications services that are taxable under current law are aggregated with and not separately stated from charges for telecommunications services that are not taxable under current law, the nontaxable services may be subject to tax unless the telecommunications provider can identify by reasonable and verifiable standards the portion of the charges not subject to tax, as described in the act.

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 Kansas City
City of Springfield
Department of Conservation
Department of Natural Resources
Department of Revenue
Office of Administration Division of Budget and Planning
Public Service Commission
St. Louis County



Kyle Rieman
Director
April 5, 2019

Ross Strobe
Assistant Director
April 5, 2019