

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3422-03
Bill No.: SB 648
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Cities, Towns, Villages and Counties
Type: Original
Date: February 10, 2020

Bill Summary: This proposal modifies several provisions of taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
General Revenue	Unknown	Less than \$591,804	Less than \$76,355,673 to \$116,155,673	Could exceed (\$155,432,764 to \$197,932,764)
Total Estimated Net Effect on General Revenue	Unknown	Less than \$591,804	Less than \$76,355,673 to \$116,155,673	Could exceed (\$155,432,764 to \$197,932,764)

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 38 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
School District Trust Fund	\$0	\$309,236	\$25,718,471 to \$38,918,471	\$27,518,471 to \$41,618,471
Conservation Commission Fund	\$0	\$38,654	\$3,177,309 to \$4,877,309	\$3,477,309 to \$5,177,309
Parks, Soils and Water State Sales Tax Funds	\$0	\$30,924	\$2,561,847 to \$3,861,847	\$2,761,847 to \$4,161,847
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$378,814	\$31,457,627 to \$47,657,627	\$33,757,627 to \$50,957,627

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
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 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
General Revenue	0 FTE	0 FTE	33 FTE	33 FTE
Total Estimated Net Effect on FTE	0 FTE	0 FTE	33 FTE	33 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Local Government	\$0	Could exceed (\$18,233,463)	Less than \$1,903,207 to \$22,503,207	Less than \$4,703,207 to \$26,703,207

FISCAL ANALYSIS

ASSUMPTION

Section 32.086 - DOR Collection Fee - Begins 01/01/2022

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state the Missouri Department of Revenue (DOR) shall retain one percent (1%) for all local sales and use taxes collected, 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 one percent (1%) of collections. Based on information provided by DOR, total sales tax collections for those 613 jurisdictions were \$152.8M in Tax Year 2019. Therefore, B&P estimates that this provision will increase Total State Revenue (TSR) and General Revenue (GR) by \$0.8M in Fiscal Year 2022. Once fully implemented (Fiscal Year 2023), this provision will increase TSR and GR by \$1.5M annually.

Oversight notes Section 32.086 states DOR shall remit one percent (1%) of all local sales and use taxes collected by DOR to GR, unless a greater amount is specified in the local sales and use tax law, in which such amount would be used. Oversight notes B&P has estimated the provisions under Section 32.086 could increase TSR and GR by \$800,000 in Fiscal Year 2022 and \$1,500,000 when fully implemented in Fiscal Year 2023. Oversight notes the information stated by B&P appears to have been provided by DOR. Oversight does not have any information to the contrary and, for the purposes of this fiscal note, will use the estimates provided by DOR.

Officials from the **Missouri Department of Revenue (DOR)** state this section allows DOR to retain one percent (1%) 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 2019, DOR collected \$152,819,685 in sales tax from special taxing districts (TDDs, CIDs, Port Improvement Districts). Currently, DOR does not retain any amount of sales tax collections from these special taxing districts.

If DOR were to retain one percent (1%) of the sale tax collections of these special taxing districts, GR may increase by an estimated \$1,528,197 per year starting January 1, 2022. Therefore there will be 6 months of collection in Fiscal Year 2022.

ASSUMPTION (continued)

2019		Gross Distribution	Projected 1% DOR fee
CID	Sales	\$70,394,092.82	\$703,940.93
TDD	Sales	\$80,851,433.07	\$808,514.33
PID	Sales	\$214,486.98	\$2,144.87
CID	Use	\$1,316,322.40	\$13,163.22
TDD	Use	\$0.00	\$0.00
PID	Use	\$43,349.48	\$433.49
TOTAL		\$152,819,684.75	\$1,528,196.84

Oversight notes DOR has estimated an increase to GR equal to \$764,098 in Fiscal Year 2022 and \$1,528,197 when fully implemented in Fiscal Year 2023. Oversight notes DOR reviewed the amount(s) of taxes collected from each taxing jurisdictions in which they currently don't retain one percent (1%) from, multiplied each by one percent (1%) and aggregated the amounts to provide their total estimated increase to GR.

Oversight notes local taxing jurisdictions will experience a loss equal to the amount GR is increased. For purposes of this fiscal note, Oversight will report DOR's estimated increase to GR as well as provide a loss equal to the same amount for local taxing jurisdictions.

Section 32.087 - Local Sales Tax Rates (Begins 01/01/22)

Officials from **B&P** state subdivision 32.087.3(2) would place a limit on the total combined sales tax rate of local jurisdictions. For sales taxes authorized by a city, town, or village the total combined local sales tax rate shall not exceed four and one-half percent (4.5%). Using sales tax rates published by DOR, B&P estimates that approximately 790 jurisdictions may have a combined sales tax rates in excess of this limit. For sales taxes authorized by a county, the total combined sales tax rate shall not exceed three and one-fourth percent (3.25%). Using the same data, B&P estimates that approximately 33 counties may have a combined sales tax rates in excess of this limit. B&P notes that this subdivision does not outline what actions a jurisdiction must take if their total combined sales tax rates are higher than the limits. Therefore, B&P estimates that this provision may reduce local revenues by \$0 to an unknown amount, but could be a significant amount. This provision may reduce TSR and GR if jurisdictions are required to lower their sales tax rates below the cap, causing a reduction in the 1% cost of collections fee received by DOR.

Subdivision 32.087.3(5) would require all local taxing jurisdictions to reduce their sales tax rate beginning on January 1, 2022. The reduction in the sales tax rate shall be by an amount that leaves collections substantially similar to sales tax revenues received from July 1, 2019 through June 30, 2020, plus 5%.

ASSUMPTION (continued)

B&P notes that the provision states "for all tax years beginning on or after"; therefore, it is unclear whether local jurisdictions would reduce their tax levies once (January 1, 2022) or every tax year. If local jurisdictions are required to adjust their sales tax levy every year, B&P notes that local sales tax revenues would be capped at the Fiscal Year 2020 collection amount, plus 5% in perpetuity. B&P further notes that this cap would be prior to the collection of online use taxes.

Officials from **DOR** state Section 32.087(2) would limit the combined sales tax rate in local political subdivisions. It provides a method for determining which sales/use tax will be kept if the limit is exceeded. DOR assumes this will not fiscally impact their organization.

Section 32.087.3(5) would require the lowering of individual levies by local political subdivisions, starting January 1, 2022, but they are made whole by the allowed increase. DOR assumes this will not fiscally impact their organization.

Oversight notes this section would, for all tax years beginning on or after January 1, 2022, require all local sales tax imposed by a taxing entity that is incorporated as a city, towns or villages be equal to or less than four and one-half percent (4.5%), all local sales tax imposed by a county be equal to or less than three and one-fourth percent (3.25%) and all local sales tax imposed by any other taxing jurisdiction be equal to or less than three and one-fourth percent (3.25%) when not including the overlapping of tax(es) imposed by cities, towns, villages, or counties. Oversight notes the language would exclude transient guest taxes or convention and tourism taxes from being considered local sales taxes.

Oversight further notes this section states that, for all tax years beginning on or after January 1, 2022, all taxing jurisdictions that impose a local sales tax shall reduce the rate imposed to a rate that would produce substantially the same amount of sales tax revenue collected during Fiscal Year 2020, plus five percent. All taxing jurisdictions would be required to provide the State Auditor's Office (SAO) with information confirming the rates imposed are levied at such a rate to produce such revenues. If SAO recognizes any discrepancies among the taxing jurisdictions rates in relation to the taxing jurisdictions base Fiscal Year 2020 sales tax revenue, SAO shall provide the findings to the taxing jurisdictions with a recalculated rate.

Oversight notes the language proposed does not specifically provide whether taxing jurisdictions are required to review their rates in conjunction with their Fiscal Year 2020 collections, plus five percent, once or if taxing jurisdictions would be required to review the revenues collected each fiscal year to determine whether rate reductions are required.

ASSUMPTION (continued)

Oversight notes, at the current time, it is impossible to know with a guarantee whether any sales tax rates imposed by local taxing jurisdictions would produce revenues in excess of the base Fiscal Year 2020's revenues, plus five percent. Local taxing jurisdictions would not know whether their sales tax rate would need to be reduced until the end of Fiscal Year 2021 (June 30, 2021) when total revenues for that fiscal year can be evaluated. Today, the local fiscal impact is \$0 to a negative unknown; \$0 if no local taxing jurisdictions sales tax collections exceed Fiscal Year 2020's sales tax revenue collections, plus five percent and a negative unknown being the local taxing jurisdictions that, in the future, determine their sales tax rate imposed produced revenues in excess of Fiscal Year 2020's sales tax revenues, plus five percent, requiring them to lower their sales tax rate imposed. Oversight notes the first fiscal year in which local taxing jurisdictions could experience revenue reductions would be Fiscal Year 2022; the first year in which a local taxing jurisdiction might be required to reduce their sales tax rate.

Section 32.087 also states that if the boundaries of any city that imposes a sales tax is changed or altered, the city clerk shall forward to DOR a copy of the ordinance adding or detaching territory and reflect the effective date within while including a map of the new territory.

Section(s) 66.620 - 94.705, 184.845 - 664.032 - Local Taxing Districts

Officials from the **Missouri Department of Revenue (DOR)** state the provisions put forth under these sections change the effective date of the imposition, repeal or change of the tax rates imposed by local taxing jurisdictions. It also states the rates must be forwarded to DOR. DOR states these changes are not expected to have a fiscal impact.

Oversight notes DOR does not anticipate a fiscal impact as a result of this provision of the proposed legislation. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact as it relates to this section.

Section 143.011 - Individual Income Tax Rate Reduction (Begins 01/01/2024)

Officials from **B&P** state Section 143.011.4 would reduce the top individual income tax rate of tax by 0.3% beginning with the tax year following the last rate reduction authorized under Subsection 143.011.2. For the purpose of this fiscal note, B&P assumes that the remaining rate reductions currently scheduled to implement under SB 509 (2014) will occur in consecutive years from Tax Year 2021 through Tax Year 2023. Therefore, B&P will assume that this rate reduction will occur for Tax Year 2024.

ASSUMPTION (continued)

Accounting for the changes in individual income tax law created by SB 509 (2014), HB 2540 (2018) and the Tax Cuts and Jobs Act TCJA (2017), B&P estimates that this section will reduce TSR and GR by \$279.9M in Tax Year 2024.

However, because this proposal would take effect January 1, 2024 individuals will adjust their withholdings and declarations during Fiscal Year 2024. Therefore, B&P estimates that this proposal will reduce TSR and GR by \$117.5M in Fiscal Year 2024. Once fully implemented in Fiscal Year 2025, and annually thereafter, this proposal will reduce TSR and GR by \$279.9M.

Oversight notes B&P has applied forty-two percent (42%) of Tax Year 2024's estimated revenue reductions to Fiscal Year 2024. The additional fifty-eight percent of Tax Year 2024's estimated revenue reductions in addition to forty-two percent (42%) of Tax Year 2025's estimated revenue reductions are combined to provide the estimate for Fiscal Year 2025.

Oversight notes this section states the top individual income tax rate, after all tax rate reductions created under SB 509 (2014) have occurred, shall be reduced by three-tenths of one percent (.3%). The current tax rates per tax year, assuming the rate reductions created under SB 509 (2014) will occur in consecutive tax years, are:

Tax Year	Top Ind. Income Tax Rate
2020	5.4%
2021*	5.3%
2022*	5.2%
2023*	5.1%

* Assumes the tax rate reductions created under SB 509 (2014) occur.

Oversight further notes this proposed legislation would provide the following tax rates per tax year, assuming the rate reductions created under SB 509 (2014) will occur in consecutive tax years:

Tax Year	Top Ind. Income Tax Rate
2020	5.4%
2021*	5.3%
2022*	5.2%
2023*	5.1%
2024**	4.8%

* Assumes the tax rate reductions created under SB 509 (2014) occur.

** The tax rate reduction put forth in this proposed legislation.

ASSUMPTION (continued)

The fiscal impact reported would be pushed out one year for each year the tax rate reductions created under SB 509 (2014) do not occur.

Oversight will, for purposes of this fiscal note, use B&P’s estimates reported; showing revenue reductions equal to \$117,500,000 in Fiscal Year 2024 and \$279,900,000 in Fiscal Year 2025 and each fiscal year thereafter.

Officials from **DOR** state this proposal would require that, after the SB 509 rate reductions that are currently scheduled to occur; the following year an additional three tenths of one percent (.3%) reduction in the individual income tax shall take place.

DOR notes the current projected Individual Income Tax Rate is calculated with SB 509 (2014) and HB 2540 (2018) as follows:

- Tax Year 2018 it was 5.9% (.1% reduction from SB 509)
- Tax Year 2019 it was 5.4% (.1% reduction from SB 509 + .4% reduction from HB 2540)
- Tax Year 2020 it is 5.4% (no reductions)
- Tax Year 2021 will be 5.3% (.1% reduction from SB 509)
- Tax Year 2022 will be 5.2% (.1% reduction from SB 509)
- Tax Year 2023 will be 5.1% (last .1% reduction from SB 509)

DOR assumes that SB 509 triggers each year consecutively for fiscal note purposes.

This proposal would decrease the individual income tax rate in Tax Year 2024 to 4.8%. DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact. DOR, for individual income tax, uses a 42%/58% split to convert calendar year data to fiscal year data.

Fiscal Year Impact				
Impact to General Revenue				
FY21	FY22	FY23	FY24	FY25
\$0	\$0	\$0	(\$117,110,442)	(\$278,834,386)

Oversight notes DOR has applied a 42% / 58% split when converting their calendar year estimates into fiscal year estimates.

Section 143.441 - Air Freight Forwarders (Begins 8/28/2020)

Officials from **B&P** state this section adds air freight forwarders to the definition of corporations. This may have an unknown impact to corporate income tax collections. Therefore, this section may impact GR and TSR.

ASSUMPTION (continued)

Officials from **DOR** state this section adds freight forwarders to the definition of corporations. DOR assumes an unknown impact on TSR and GR.

DOR notes this provision would become effective August 28, 2020 upon passage of the proposal. This would have an impact starting in FY 2021.

Oversight notes this section includes qualified air freight forwarders within the meaning of “corporation.” A qualified air freight forwarder is considered a taxpayer who: is primarily engaged in the facilitation of the transportation of property by air; does not directly operate aircraft and is affiliated with an airline.

Section 144.030 - Sales Tax Exemptions (Begins 01/01/2022)

Officials from **B&P** state this section includes a sales tax exemption for usual and customary delivery charges. B&P notes that SB 16 (2017) already exempted delivery charges from sales tax. Therefore, B&P estimates that this provision will not impact TSR or GR.

Oversight notes SB 16 (2017) excluded usual and customary delivery charges that are stated separately from the sales price from the term “gross receipts.” Therefore, Oversight assumes zero sales tax is being collected on such items and will, for the purposes of this fiscal note, show a zero fiscal impact.

Section 144.049 - Back-to-School Sales Tax Holiday (Begins 01/01/2022)

Officials from **B&P** state this section would no longer allow 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 2018, the most recent year data is available, local sales tax collections for qualifying items during the holiday totaled \$424,284. Therefore, B&P estimates that this provision could reduce funds to localities that had previously opted-out of the sales tax holiday by \$424,484 beginning in Fiscal Year 2023.

Officials from **DOR** state this proposed section would eliminate the ability of a local political subdivision to opt out of participating in the Back to School sales tax holiday, which occurs in August annually. DOR, in Tax Year 2018, collected \$677,463.79 and in Tax Year 2019 collected \$424,483.54 from jurisdictions that currently opt out of this holiday. The average collected was \$550,974. This will be a decrease in revenue to the local jurisdictions that currently opt out.

This proposal has an effective date of January 1, 2022. This provision would begin in Fiscal Year 2023 as the holiday occurs in August.

ASSUMPTION (continued)

Oversight notes this section states that state and local sales tax shall not be imposed on the qualifying items of the Back-to-School Sales Tax Holiday and further repeals the provision in current law that allows local political subdivisions to opt out of the sales tax holiday. Oversight notes DOR estimates \$424,484 was collected on such qualifying items during Tax Year 2018 and \$677,464 in Tax Year 2019 for an average of \$550,974 each year. Thus, local political subdivisions sales tax revenue(s) would be decreased by an amount equal to, on average, \$550,974. Oversight will show the (average) reduction in revenues to local political subdivisions beginning in Fiscal Year 2023 when the first sales tax holiday would occur after the effective date of this section.

Section 144.054 - Manufacturing Sales Tax Exemption (Begins 01/01/2022)

Officials from **B&P** state this section would expand the manufacturing sales tax exemption to include local sales tax. In Fiscal Year 2019, the most recent year data is available, there were \$887,952,017 in taxable sales, with estimated local sales tax collections of \$34,896,514. Therefore, B&P estimates that this section will reduce local sales tax collections by \$17,448,257 ($\$34,896,514 / 2$) during Fiscal Year 2022. Once fully implemented in Fiscal Year 2023, and annually thereafter, this section will reduce local sales tax collections by \$34,896,514.

Officials from **DOR** state, currently, there is a sales and use tax manufacturing exemption. Local political subdivisions are still allowed to collect their portion of the sales and use tax. This provision would end the local's ability to continue to collect the tax. DOR tracked an estimated \$887,952,016 in taxable sales that came from manufacturing in Fiscal Year 2019. 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 \$34,274,948.

This proposal has an effective date of January 1, 2022. This provision would result in 6 months of decrease revenue to the locals in Fiscal Year 2022.

Oversight notes this section states all state and local sales tax shall not be collected on electrical energy and gas, whether natural, artificial, or propane, water, coal, and energy sources, chemicals, machinery, equipment, and materials used or consumed in the manufacturing, processing, compounding, mining, or producing of any product, or used or consumed in the processing of recovered materials, or used in research and development related to manufacturing processing, compounding, mining or producing any product. This section expands the current exemption of state sales tax to exempt local sales tax as well.

ASSUMPTION (continued)

Oversight notes DOR used a 3.86% population weighted average local sales tax rate to estimate the local revenue reductions equal to \$34,274,948. Oversight assumes B&P used a population weighted average local sales tax rate of 3.93% to provide their estimate (\$34,896,514 / \$887,952,017). Oversight notes B&P has estimated this provision could reduce local sales tax collections of \$34,896,514 when fully implemented. For the purposes of this fiscal note, Oversight will report a revenue reduction for local political subdivisions equal to \$17,448,257 in Fiscal Year 2022 and B&P's fully implemented estimate in Fiscal Year 2023 and each year thereafter.

Section 144.123 - DOR Tax Database (Begins 01/01/2022)

Officials from **DOR** state this proposed section states that the Director of Revenue shall provide and maintain a database that describes boundary changes for all taxing jurisdictions and the effective dates of such changes for the use of vendors collecting the tax imposed under Sections 144.600 to 144.745.

This proposed section states that for the identification of counties and cities, codes corresponding to the rates shall be provided according to Federal Information Processing Standards. For the identification of all other jurisdictions, codes corresponding to the rates shall be in a format determined by the director.

This proposed section states that the electronic databases provided for in subsections 1, 2, 3, and 4 of this section shall be in downloadable format as determined by the director. The databases shall be provided at no cost to the user of the database, and no vendor shall be liable for reliance upon erroneous data provided by the director on tax rates, boundaries, or taxing jurisdiction assignments.

DOR anticipates this proposed section would require a totally new program that would require DOR to contract with a certified service provider (CSP). DOR believes the fiscal impact for this would be significantly greater than \$1 million. DOR has reached out to multiple CSP providers, though DOR has not yet received any definitive fiscal response. DOR will continue to research and update when needed.

Oversight notes the effective date of this section is January 1, 2022. Oversight will, for purposes of this fiscal note, report DOR's estimate of "significantly greater than \$1 million" contracting cost in Fiscal Year 2022 which provides that DOR would be charged the contract price within six months prior to January 1, 2022 and an (Unknown) impact each fiscal year thereafter since no definitive cost has been provided.

ASSUMPTION (continued)

Officials from **B&P** state 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.

Section 144.526 - Show-Me Green Sales Tax Holiday (Begins 01/01/2022)

Officials from **B&P** state this section would no longer allow 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.

In Tax Year 2019, the most recent year data was available, local sales tax collections for qualifying items during the holiday totaled \$21,108. Therefore, B&P estimates that this provision could reduce funds to localities that had previously opted-out of the sales tax holiday by \$21,108 beginning in Fiscal Year 2022.

Officials from **DOR** state this proposed section would eliminate the ability of a local political subdivision to opt out of participating in the Show-Me-Green sales tax holiday, which occurs in April annually. DOR, in Tax Year 2018 collected \$19,843.65 and in Tax Year 2019 collected \$21,108.11 from jurisdictions that currently opt out of this holiday. The average collected was \$20,476. This will be a decrease in revenue to the local jurisdictions that currently opt out.

This proposal has an effective date of January 1, 2022. This provision would begin in Fiscal Year 2022 as the holiday occurs in April.

Oversight notes B&P and DOR state local sales tax collections during the Show-Me-Green sales tax holiday during Tax Year 2019 totaled \$21,108. Therefore, Oversight will report a reduction to local political subdivisions equal to \$21,108 beginning in Fiscal Year 2022 and each fiscal year thereafter.

ASSUMPTION (continued)

Section 144.612, 144.655 and 144.752 - Online Use Tax (Begins 01/01/2022)

Officials from **B&P** state Section 144.612 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, 2022. Only retailers with gross revenue greater than \$100,000 from deliveries into Missouri would be required to collect Missouri sales tax.

B&P and the DOR worked together to estimate the potential revenue gains from the U.S. Supreme Court Wayfair decision, which overturned the Quill decision and held that states may charge a tax on purchases made from out-of-state sellers, even if the seller doesn't have a physical presence in the taxing state. In November 2017, the U.S. Government and Accountability Office (GAO) released 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 tax under Missouri law. B&P and DOR were able to find limited studies on the e-commerce market share for such sales. The studies indicated that digital downloads account for approximately 14.1% of all e-commerce sales. B&P and DOR then reduced the original GAO estimates by that 14.1%.

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

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.

ASSUMPTION (continued)

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 2022 Missouri could gain up to \$106.0 million to \$161.9 million in TSR, of which \$75.2 million to \$115.0 million would be GR. By Calendar Year 2025, B&P and DOR estimate that TSR could be increased by \$115.2 million to \$176.0 million, of which \$81.8 million to \$125.0 million would be GR. Table 1 shows the estimated impact by calendar year.

Table 1: Collections by Calendar Year

Revenue Estimates	2022		2023		2024		2025	
	Low	High	Low	High	Low	High	Low	High
GR (approx. 36% of total collections)	\$75.20	\$115.00	\$78.20	\$119.50	\$80.60	\$123.10	\$83.00	\$126.80
Education	\$25.10	\$38.30	\$26.10	\$39.80	\$26.90	\$41.00	\$27.70	\$42.30
Conservation	\$3.10	\$4.80	\$3.30	\$5.00	\$3.40	\$5.10	\$3.50	\$5.30
Parks, Soil, Water	\$2.50	\$3.80	\$2.60	\$4.00	\$2.70	\$4.10	\$2.80	\$4.20
TSR	\$106.00	\$161.90	\$110.20	\$168.30	\$113.50	\$173.40	\$116.90	\$178.60
Local* (Pop Weighted Rate 1.385%)	\$38.90	\$59.50	\$40.50	\$61.90	\$41.70	\$63.70	\$43.00	\$65.60

Figures in \$M

*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.

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.

Subsection 144.655.7 requires out-of-state sellers remitting use tax to file annual returns. B&P notes that this could include sellers with sales that would have otherwise fallen into the monthly or quarterly use tax return filing thresholds.

B&P and DOR estimate that in Fiscal Year 2023 Missouri could gain up to \$106.0 million to \$161.9 million in TSR, of which \$75.2 million to \$115.0 million would be GR. By Fiscal Year 2025, B&P and DOR estimate that TSR could be increased by \$113.5 million to \$173.4 million, of which \$80.6 million to \$123.1 million would be GR. Table 2 shows the estimated impact by fiscal year.

ASSUMPTION (continued)

Table 2: Collections by Fiscal Year

Revenue Estimates	2023		2024		2025	
	Low	High	Low	High	Low	High
GR (approx 36% of total collections)	\$75.20	\$115.00	\$78.20	\$119.50	\$80.60	\$123.10
Education (1% tax)	\$25.10	\$38.30	\$26.10	\$39.80	\$26.90	\$41.00
Conservation (0.125% tax)	\$3.10	\$4.80	\$3.30	\$5.00	\$3.40	\$5.10
Parks, Soil, Water (0.1% tax)	\$2.50	\$3.80	\$2.60	\$4.00	\$2.70	\$4.10
TSR	\$106.00	\$161.90	\$110.20	\$168.30	\$113.50	\$173.40
Local*	\$38.90	\$59.50	\$40.50	\$61.90	\$41.70	\$63.70

Figures in \$M

*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.

Section 144.595 defines market place facilitators and states that a facilitator counts as one seller. Starting January 1, 2022 market place facilitators that reach the sales thresholds outlined under Section 144.612 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 from **DOR** state B&P and the DOR worked together to estimate the potential revenue gains from the U.S. Supreme Court Wayfair decision, which overturned the Quill decision and held that states may charge a tax on purchases made from out-of-state sellers, even if the seller doesn't have a physical presence in the taxing state. In November 2017, the U.S. Government and Accountability Office (GAO) released 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 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%.

ASSUMPTION (continued)

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

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 tax year 2022 Missouri could gain up to \$106.0 million to \$161.9 million in TSR, of which \$75.2 million to \$114.9 million would be GR. By 2025, B&P and DOR estimate that TSR could be increased by \$116.9 million to \$178.6 million, of which \$83.0 million to \$126.8 million would be General Revenue. B&P notes that these estimates reflect the full potential revenue and do not include adjustments for implementation timing or business compliance. Therefore, the actual revenue collected in earlier years may be significantly lower than the estimated amount.

The following tables show the potential state and local revenue gains from expanding Missouri sales tax law to include online sales.

ASSUMPTION (continued)

By Sales Tax Year:

Revenue Estimates	2021		2022		2023		2024		2025	
	Low	High	Low	High	Low	High	Low	High	Low	High
GR (approx. 36% of total collections)	\$0.00	\$0.00	\$75.20	\$114.90	\$78.20	\$119.50	\$80.60	\$123.10	\$83.00	\$126.80
Education	\$0.00	\$0.00	\$25.10	\$38.30	\$26.10	\$39.80	\$26.90	\$41.00	\$27.70	\$42.30
Conservation	\$0.00	\$0.00	\$3.10	\$4.80	\$3.30	\$5.00	\$3.40	\$5.10	\$3.50	\$5.30
Parks, Soil, Water	\$0.00	\$0.00	\$2.50	\$3.80	\$2.60	\$4.00	\$2.70	\$4.10	\$2.80	\$4.20
TSR	\$0.00	\$0.00	\$106.00	\$161.90	\$110.20	\$168.30	\$113.50	\$173.40	\$116.90	\$178.60
Local* (Pop Weighted Rate 1.385%)	\$0.00	\$0.00	\$38.90	\$59.50	\$40.50	\$61.90	\$41.70	\$63.70	\$43.00	\$65.60

Figures in \$M

*Section 144.637.3 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

DOR notes this proposal becomes effective January 1, 2022. The out-of-state sellers are required to remit the tax and file a return for the calendar year. They must pay by January 31st of the succeeding year. Therefore, DOR would expect the revenue from the 2022 calendar year to be received by the State in Fiscal Year 2023.

By Fiscal Year (assume Jan. 1, 2022 start date):

Revenue Estimates	2021		2022		2023		2024		2025	
General Revenue	\$0.00	\$0.00	\$0.00	\$0.00	\$75.20	\$114.90	\$78.20	\$119.50	\$80.60	\$123.10
Education	\$0	\$0	\$0	\$0	\$25.1	\$38.3	\$26.10	\$39.80	\$26.90	\$41.00
Conservation (0.125% tax)	\$0.00	\$0.00	\$0.00	\$0.00	\$3.10	\$4.80	\$3.30	\$5.00	\$3.40	\$5.10
Parks, Soil, Water (0.1% tax)	\$0.00	\$0.00	\$0.00	\$0.00	\$2.50	\$3.80	\$2.60	\$4.00	\$2.70	\$4.10
TSR	\$0.00	\$0.00	\$0.00	\$0.00	\$106.00	\$161.90	\$110.20	\$168.30	\$113.50	\$173.40
Local*	\$0.00	\$0.00	\$0.00	\$0.00	\$38.90	\$59.50	\$40.50	\$61.90	\$41.70	\$63.70

ASSUMPTION (continued)

DOR assumes they 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.

Furthermore, DOR has stated they would require the following for their Sales Tax Bureau:

DOR estimates they will need three (3) Revenue Processing Technician I (RPT I) to process additional returns. DOR estimates they will need one (1) RPT I to answer additional correspondence. DOR estimates they will need two (2) RPT I's to process the additional registration applications and perform location maintenance.

DOR has stated they would require the following for their Field Compliance Bureau (Audit):

DOR will need to increase the number of auditors, especially those in out-of-state offices in order to address the potential of a greater non-compliant tax base. DOR would need to add twenty-five (25) auditors. DOR believes the twenty-five total auditors would increase over a period of time, as DOR 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 they will need two (2) additional auditors in training, to perform discovery work needed to identify potential audit leads from non-registered businesses.

Oversight will include DOR's administrative and personnel costs in this fiscal note as reported by DOR and Oversight's assumption for an (Unknown) cost for Fiscal Year 2022 and Fiscal Year 2023 for postage and printing.

Oversight notes B&P and DOR has provided the same fiscal year estimates. Oversight does not have any information to the contrary. Therefore, Oversight will show the estimated impact as reported by both B&P and DOR. Furthermore, Oversight will include DOR's cost as a reduction to GR.

Section 144.710 - Use Tax Timely Filing Discount (Begins 01/01/2022)

Officials from **B&P** state 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 TSR or the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

Section 144.517 (Repealed) - Textbook Sales Tax Exemption (Begins 01/01/2022)

Officials from **B&P** state this proposal would repeal Section 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 \$2,613,039 during Fiscal Year 2019. Therefore, B&P estimates this provision will increase TSR by \$1,306,519 and GR by \$927,706 in Fiscal Year 2022. Once fully implemented in Fiscal Year 2023, and annually thereafter, this provision will increase TSR by \$2,613,039 and GR by \$1,855,412.

Officials from **DOR** state this provision removes textbooks from being exempt from state sales and use tax. DOR recorded an estimated \$61,847,076 in textbook sales for Fiscal Year 2019. Taking the total sales by the state sales tax rate of 4.225%, DOR estimates this proposed section will increase TSR by \$2,613,039 annually.

Oversight notes both B&P and DOR believe that TSR could increase by \$2,613,039 when fully implemented. Oversight further notes the aggregated \$2,613,039 would be deposited into GR, the School District Trust Fund, the Conservation Commission Trust Fund, and the Parks, Soils and Water State Sales Tax Trust Fund(s) equal to their respective percentages. Oversight will show the respective increases to each fund based on the total TSR impact estimated by B&P and DOR equal to \$2,613,039 multiplied by each fund's respective debit percentage. Oversight notes Fiscal Year 2022 will receive approximately 6 months worth, or half, of the \$2,613,039.

Summary

In total, B&P estimates that this proposal will increase TSR by \$2.1M and GR by \$1.7M in FY22. Once fully implemented (FY25) this proposal may decrease TSR by \$102.4M to \$162.2M and GR by \$153.4M to \$195.9M annually. The following tables show the revenue impacts per provision and the impacts to each state fund.

Table 1: Revenue Impact by Provision

State Impacts	FY 2021		FY 2022		FY 2023		FY 2024		Fully Implemented	
	Low	High	Low	High	Low	High	Low	High	Low	High
Individual Income Tax Reduction	0	0	0	0	0	0	-117.5	-117.5	-279.9	-279.9
Corporate Tax - Air Freight Forwarders	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)
Online Use Tax Collection	0	0	0	0	106	161.9	110.2	168.3	113.5	173.4
DOR Collection Fee	0	0	0.8	0.8	1.5	1.5	1.5	1.5	1.5	1.5
Textbook Sales Tax Exemption - Repealed	0	0	\$1.30	\$1.30	\$2.60	\$2.60	\$2.60	\$2.60	\$2.60	\$2.60
Total Estimated Impact to State Revenues	(Unk)	(Unk)	2.1	2.1	110.1	166	-3.2	54.9	-162.2	-102.4

ASSUMPTION (continued)

Local Impacts	FY 2021		FY 2022		FY 2023		FY 2024		Fully Implemented	
	Low	High	Low	High	Low	High	Low	High	Low	High
Online Use Tax Collection	0	0	0	0	38.9	59.5	40.5	61.9	41.7	63.7
DOR Collection Fee	0	0	-0.8	-0.8	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Back-to-School Sales Tax Holiday	0	0	0	0	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Manufacturing Sales Tax Exemption	0	0	-17.4	-17.4	-34.9	-34.9	-34.9	-34.9	-34.9	-34.9
Show-Me Green Sales Tax Holiday	0	0	-0.01	-0.01	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02
Total Estimated Impact to Local Revenues	\$0.00	\$0.00	(\$18.20)	(\$18.20)	\$2.10	\$22.70	\$3.70	\$25.10	\$4.80	\$26.80

Figures in \$M

*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

State Funds	FY 2021		FY 2022		FY 2023		FY 2024		Fully Implemented	
	Low	High	Low	High	Low	High	Low	High	Low	High
General Revenue	(Unk)	(Unk)	\$1.70	\$1.70	\$78.60	\$118.40	(\$35.90)	\$5.40	(\$195.90)	(\$153.40)
Education	\$0.00	\$0.00	\$0.30	\$0.30	\$25.70	\$38.90	\$26.70	\$40.40	\$27.50	\$41.60
Park, Soil, Water	\$0.00	\$0.00	\$0.03	\$0.03	\$2.60	\$3.90	\$2.70	\$4.10	\$2.70	\$4.20
Conservation	\$0.00	\$0.00	\$0.04	\$0.04	\$3.20	\$4.90	\$3.40	\$5.10	\$3.40	\$5.20

ASSUMPTION (continued)

Officials from **DOR** assume this proposed legislation, in its entirety, would have the following impact, per fund, per fiscal year:

General Revenue	FY 2022		FY 2023		FY 2024		FY 2025	
	Low	High	Low	High	Low	High	Low	High
32.086 1% Tax Collection Fee	\$0.70	\$0.70	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50
144.612 Out of State Sellers Tax Collection	\$0	\$0	\$75.20	\$114.90	\$78.20	\$119.50	\$26.90	\$41.00
144.612 DOR Admin/Auditors	\$0	\$0	(\$1.90)	(\$1.90)	(\$1.90)	(\$1.90)	(\$1.90)	(\$1.90)
143.011 Individual Income Tax Reduction	\$0	\$0	\$0	\$0	(\$117.10)	(\$117.10)	(\$278.80)	(\$278.80)
143.441 Air Freight Forwarders	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)
144.123 Tax Database	(Greatly Exceed \$1.0)	(Greatly Exceed \$1.0)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)
144.517 Textbooks elimination of sales tax exemption	\$0	\$0	\$0.90	\$0.90	\$1.80	\$1.80	\$1.80	\$1.80
TOTAL	(Greatly Exceed \$1.0)	(Greatly Exceed \$1.0)	\$75.70	\$115.40	(\$37.50)	\$3.80	(\$196.80)	(\$151.30)

Figures in \$M
 Unk - Unknown impact

ASSUMPTION (continued)

School District Trust	FY 2022		FY 2023		FY 2024		FY 2025	
	Low	High	Low	High	Low	High	Low	High
144.612 Out of State Sellers Tax	\$0	\$0	\$25.10	\$38.30	\$26.10	\$39.80	\$26.90	\$41.00
144.517 Textbooks elimination of sales tax exemption	\$309,236	\$309,236	\$618,471	\$618,471	\$618,471	\$618,471	\$618,471	\$618,471
TOTAL	\$309,236	\$309,236	\$25.70	\$38.90	\$26.70	\$40.40	\$27.50	\$41.60

Figures in \$M (except for Textbooks Sales Tax Exemption)

Conservation Commission Fund	FY 2022		FY 2023		FY 2024		FY 2025	
	Low	High	Low	High	Low	High	Low	High
144.612 Out of State Sellers Tax	\$0	\$0	\$3.10	\$4.80	\$3.30	\$5.00	\$3.40	\$5.10
144.517 Textbooks elimination of sales tax exemption	\$38,655	\$38,655	\$77,309	\$77,309	\$77,309	\$77,309	\$77,309	\$77,309
TOTAL	\$38,655	\$38,655	\$3.10	\$4.80	\$3.30	\$5.00	\$3.40	\$5.10

Figures in \$M (except for Textbook Sales Tax Exemption)

Parks, Soil & Water Funds	FY 2022		FY 2023		FY 2024		FY 2025	
	Low	High	Low	High	Low	High	Low	High
144.612 Out of State Sellers Tax	\$0	\$0	\$2.50	\$3.80	\$2.60	\$4.00	\$2.70	\$4.10
144.517 Textbooks elimination of sales tax exemption	\$30,924	\$30,924	\$61,847	\$61,847	\$61,847	\$61,847	\$61,847	\$61,847
TOTAL	\$30,924	\$30,924	\$2.50	\$3.80	\$2.60	\$4.00	\$2.70	\$4.10

Figures in \$M (except for Textbook Sales Tax Exemption)

ASSUMPTION (continued)

Local Impact	FY 2022		FY 2023		FY 2024		FY 2025	
	Low	High	Low	High	Low	High	Low	High
32.086 1% Tax Collection Fee	(\$0.70)	(\$0.70)	(\$1.50)	(\$1.50)	(\$1.50)	(\$1.50)	(\$1.50)	(\$1.50)
144.612 Out of State Sellers Tax Collection	\$0	\$0	\$38.90	\$59.50	\$40.50	\$61.90	\$41.70	\$63.70
144.049 Back-to-School Sales Tax Holiday (Previously Opted Out)	\$0	\$0	(\$550,974)	(\$550,974)	(\$550,974)	(\$550,974)	(\$550,974)	(\$550,974)
144.054 Manufacturing Exemption	(\$17.10)	(\$17.10)	(\$34.20)	(\$34.20)	(\$34.20)	(\$34.20)	(\$34.20)	(\$34.20)
144.526 Show-Me-Green Sales Tax Holiday (Previously Opted Out)	(\$20,476)	(\$20,476)	(\$20,476)	(\$20,476)	(\$20,476)	(\$20,476)	(\$20,476)	(\$20,476)
TOTAL	(\$17.10)	(\$17.10)	\$2.60	\$23.20	\$4.20	\$25.60	\$5.40	\$27.40

Figures in \$M (except Back-to-School Sales Tax Holiday and Show-Me Green Sales Tax Holiday)

Officials from the **Missouri Department of Conservation (MDC)** 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. MDC assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes MDC's Conservation Commission Fund (0609) receives one-eighth of one percent of the revenues generated from sales and use tax. Oversight will report the impact to the Conservation Commission Fund as reported by B&P.

ASSUMPTION (continued)

Officials from the **Missouri Department of Natural Resources (DNR)** state DNR'S Parks and Soils Sales Tax Funds are derived from one-tenth of one percent of 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. DNR 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.

Oversight notes DNR's Parks and Soils State Sales Tax Funds (0613 & 0614) receives one-tenth of one percent of the revenues generated from sales and use tax. Oversight will report the impact to the Parks and Soils State Sales Tax Fund(s) as reported by B&P.

Officials from the **City of Springfield (Springfield)** state there is a negative fiscal impact to Springfield. The impact is unquantifiable without knowing how the tax rate reduction will affect Springfield's general fund, however, the loss is likely more than \$1,000,000.

Oversight notes Springfield assumes a loss greater than \$1,000,000 is anticipated as a result of this proposed legislation. Oversight further notes local political subdivisions will be impacted by various measures of this proposed legislation, both negatively and positively. For the purposes of this fiscal note, Oversight will report the impact to local political subdivisions as reported in combination by B&P and DOR.

Officials from the **City of Kansas City (Kansas City)** state the provisions of 144.049 (Back to School and Show Me Green are made permanent) will cause Kansas City to lose the ability to opt out of the sales tax holidays which could have a negative fiscal impact to Kansas City. Kansas City is unable to estimate the loss in sales tax revenues.

As regards 144.054.2 (electrical energy and gas, whether natural, artificial, or propane, water, coal, and energy sources, chemicals, machinery, equipment, and materials used or consumed in the manufacturing, processing, compounding, mining, or producing of any product, or used or consumed in the processing of recovered materials, or used in research and development related to manufacturing, processing, compounding, mining, or producing any product shall be exempt from local sales tax), Kansas City assumes this would be a new exemption and would have a negative fiscal impact on Kansas City in an indeterminate amount.

As regards 67.1545. 1 (Any district formed as a political subdivision may impose by resolution a district sales and use tax on all retail sales made in such district which are subject to taxation pursuant to sections 144.010 to [144.525] 144.527, except sales of motor vehicles, trailers, boats [or], outboard motors [and sales to or by public utilities and providers of communications, cable...), Kansas City assumes an increase of state exemptions and will have a negative fiscal impact to Kansas City. Kansas City is unable to estimate the loss in sales tax revenues.

ASSUMPTION (continued)

As regards 144.123 (establishes the zip code data base), using the lowest combined tax rate imposed in the zip code area would have negative fiscal impact to Kansas City. Kansas City is unable to estimate the impact.

As regards 144.124 (A seller or CSP shall be relieved from liability to this state or any local taxing jurisdiction for having charged and collected the incorrect amount of state or local sales or use tax resulting from such seller's or CSP's reliance upon erroneous data provided or approved by the director in the taxability matrix, and a seller shall be relieved from liability for erroneous returns made by a CSP on behalf of the seller), Kansas City assumes a potentially negative impact to Kansas City. The statements which relieves a CSP from liability for erroneous sales taxes charges and collections are concerning to Kansas City. Kansas City would not be able to recoup taxes owed. Kansas City is unable to determine an amount.

As regards 144.612(7)(a) (Notwithstanding any other provision of law to the contrary, any vendor selling tangible personal property or services designated and defined as taxable under the provisions of this chapter for delivery into Missouri, and who does not have a physical presence in the state, is subject to the provisions of sections 144.600 to 144.753, shall remit the use tax...), Kansas City assumes a positive fiscal impact because it would facilitate in the collection of internet and mail order sales tax. Kansas City is unable to estimate the gain in sales tax revenues.

As regards 32.087.3 (2)-(4) (the sales tax cap under which Kansas City would have a cap of 4.5%), this could have a negative fiscal impact on Kansas City because a cap could in the future limit Kansas City's ability to raise funds.

Oversight notes Kansas City assumes both revenue reductions and revenue gains as a result of this proposed legislation. For the purposes of this fiscal note, Oversight will report the impact to local political subdivisions as reported in combination by B&P and DOR.

Officials from the **City of St. Louis (St. Louis)** assume the proposed legislation would place a cap on the total combined rate of sales taxes for any given taxing jurisdiction of 4.5% beginning January 1, 2022. The current combined sales tax rate in St. Louis (excluding the School Board which is a separate taxing jurisdiction) is 9.013%. Thus the proposed legislation would result in a serious reduction in the sales tax rate already in effect in St. Louis. The legislation does not specify how this rate reduction is to occur nor to which of the dedicated sales tax rates the reduction will be applied. Based on a Fiscal Year 2020 estimate of \$39.7M for each 1 cent in sales tax, the prescribed reduction of 4.513 cents would reduce sales tax revenue by \$179M on an

ASSUMPTION (continued)

annual basis. The reduction would also reduce local use tax receipts by an estimated \$33.7M annually. This would bring the total estimated loss of St. Louis revenue to over \$213M per year or over 91% of current estimated sales and use tax receipts. With an effective date of January 1, 2022 approximately ½ of this loss would be incurred beginning in Fiscal Year 2022 with the first full year impact beginning in Fiscal Year 2023. A loss of revenue of this magnitude would seriously impact the ability of St. Louis to provide public safety services, capital improvements and other services funded with current sales and use tax receipts. (Note: These estimates do not include special business districts or TIF allocations which may also be negatively impacted by the proposed legislation.)

Furthermore, St. Louis assumes the proposed legislation contains provisions that would codify most on-line sales as subject to sales and use tax laws of the state. It further provides for the use tax as a mechanism for collecting the equivalent sales taxes on sales originating outside of this state. It is difficult to estimate the potential revenue that is currently not being collected from on-line sales. However, a range of potential revenue can be estimated by comparing the percentage of actual sales and use tax distributions to St. Louis per statewide distributions reports of the Missouri Department of Revenue with statewide estimates of potential on-line sales revenue per a 2017 GAO report. (Note: as the Department of Revenue distribution report is from 2017, additional adjustments to St. Louis use tax rate is necessary for two new sales taxes that went into effect in 2018.) St. Louis anticipates a potential increase in use tax revenues between \$6.9 million to 10.6 million.

Oversight notes St. Louis assumes both revenue reductions and revenue gains as a result of this proposed legislation. For the purposes of this fiscal note, Oversight will report the impact to local political subdivisions as reported in combination by B&P and DOR.

Officials from the **Missouri Attorney General's Office (AGO)** assumes that any additional litigation costs arising from this proposed legislation can be absorbed with existing personnel and resources, however, the AGO may seek additional appropriations if there is a significant increase in litigation.

Oversight notes the AGO assumes it can absorb the costs of additional litigation arising from the proposed legislation but may seek additional appropriations if such additional litigation increases by a significant amount.

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

ASSUMPTION (continued)

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)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Missouri Department of Transportation (MoDOT)** deferred to DOR for response in regards to this proposed legislation.

Oversight notes the **Missouri State Auditor's Office** and the **Missouri Department of Economic Development** has stated the proposed legislation would not have a direct fiscal impact on their respective organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these organizations.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other Cities, Counties, and Schools were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

FISCAL IMPACT -
State Government

Fully
 Implemented
 (FY 2025)

FY 2021 FY 2022 FY 2023

**GENERAL
 REVENUE FUND**

Revenue Gain - Section
 32.086 - DOR 1%
 Collection Fee - p. 4 &
 5

\$0 \$764,098 \$1,528,197 \$1,528,197

Revenue Gain - Section
 143.441 - Air Freight
 Forwarders Corporate
 Income Tax - p. 9 & 10

(Unknown) (Unknown) (Unknown) (Unknown)

Revenue Gain - Section
 144.517 - Textbook
 Sales Tax - p. 20

\$0 \$927,706 \$1,855,412 \$1,855,412

Revenue Gain -
 Section(s) 144.612,
 144.655 & 144.752 -
 Online Use Tax - p. 16
 - 18

\$0 \$0 \$75,200,000 to
 \$115,000,000 \$80,600,000 to
 \$123,100,000

Revenue Reduction -
 Section 143.011 -
 Income Tax Rate
 Reduction - p. 8

\$0 \$0 \$0 (\$279,900,000)

Cost - DOR - Section
 144.612, 144.655,
 144.752 and 144.123 -
 p. 19

Personal Services \$0 \$0 (\$1,204,093) (\$1,228,296)
 Fringe Benefits \$0 \$0 (\$780,039) (\$788,077)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Equipment and Expense	\$0	\$0	(\$243,804)	\$0
Postage and Printing	\$0	(\$100,000)	(Unknown)	(Unknown)
DOR Tax Database - p. 12	\$0	(Greater than \$1,000,000)	(Unknown)	(Unknown)
<u>Total Cost</u>	<u>\$0</u>	<u>(Greater than \$1,100,000)</u>	<u>(Could exceed \$2,227,936)</u>	<u>(Could exceed \$2,016,373)</u>
Change in FTE - DOR - p. 19	0 FTE	0 FTE	33 FTE	33 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Unknown</u>	<u>Less than \$591,804</u>	<u>Less than \$76,355,673 to \$116,155,673</u>	<u>Could exceed (\$155,432,764 to \$197,932,764)</u>
 SCHOOL DISTRICT TRUST FUND (0688)				
<u>Revenue Gain - Section 144.612, 144.655, 144.752 - Online Use Tax - p. 16-18</u>	\$0	\$0	\$25,100,000 to \$39,800,000	\$26,900,000 to \$41,000,000
<u>Revenue Gain - Section 144.517 - Textbook Sales Tax - p. 20</u>	<u>\$0</u>	<u>\$309,236</u>	<u>\$618,471</u>	<u>\$618,471</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND (0688)	<u>\$0</u>	<u>\$309,236</u>	<u>\$25,718,471 to \$38,918,471</u>	<u>\$27,518,471 to \$41,618,471</u>

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
CONSERVATION COMMISSION FUND (0609)				
<u>Revenue Gain - Section</u> 144.612, 144.655, 144.752 - Online Use Tax - p. 16-18	\$0	\$0	\$3,100,000 to \$4,800,000	\$3,400,000 to \$5,100,000
<u>Revenue Gain - Section</u> 144.517 - Textbook Sales Tax - p. 20	<u>\$0</u>	<u>\$38,654</u>	<u>\$77,309</u>	<u>\$77,309</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND (0609)	<u>\$0</u>	<u>\$38,654</u>	<u>\$3,177,309 to</u> <u>\$4,877,309</u>	<u>\$3,477,309 to</u> <u>\$5,177,309</u>
 PARKS & SOILS SALES TAX FUNDS (0613 & 0614)				
<u>Revenue Gain - Section</u> 144.612, 144.655, 144.752 - Online Use Tax - p. 16-18	\$0	\$0	\$2,500,000 to \$3,800,000	\$2,700,000 to \$4,100,000
<u>Revenue Gain - Section</u> 144.517 - Textbook Sales Tax	<u>\$0</u>	<u>\$30,924</u>	<u>\$61,847</u>	<u>\$61,847</u>
ESTIMATED NET EFFECT ON PARKS & SOILS SALES TAX FUNDS (0613 & 0614)	<u>\$0</u>	<u>\$30,924</u>	<u>\$2,561,847 to</u> <u>\$3,861,847</u>	<u>\$2,761,847 to</u> <u>\$4,161,847</u>

FISCAL IMPACT -
Local Government

	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Gain -</u> Section 144.612, 144.655, 144.752 - p. 16-18	\$0	\$0	\$38,900,000 to \$59,500,000	\$41,700,000 to \$63,700,000
<u>Revenue Reduction -</u> Section 32.087 - Sales Tax Rate Cap/Reduction - p. 7	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Revenue Reduction -</u> Section 144.049 - Back-to-School Sales Tax Holiday - p. 10	\$0	\$0	(\$550,974)	(\$550,974)
<u>Revenue Reduction -</u> Section 144.526 - Show-Me Green Sales Tax Holiday - p. 13	\$0	(\$21,108)	(\$21,108)	(\$21,108)
<u>Revenue Reduction -</u> Section 144.054 - Manufacturing Sales Tax Exemption - p. 11 & 12	\$0	(\$17,448,257)	(\$34,896,514)	(\$34,896,514)

<u>FISCAL IMPACT - Local Government</u> (continued)	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
<u>Revenue Reduction - Section 32.086 - DOR 1% Collection Fee - p. 4 & 5</u>	<u>\$0</u>	<u>(\$764,098)</u>	<u>(\$1,528,197)</u>	<u>(\$1,528,197)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>Could exceed (\$18,233,463)</u>	<u>Less than \$1,903,207 to \$22,503,207</u>	<u>Less than \$4,703,207 to \$26,703,207</u>

FISCAL IMPACT - Small Business

This proposed legislation could impact any small business that collects and remits sales and use tax as many provisions of this proposed legislation would require changes in the rates, collection, and remittance of the use taxes. Furthermore, any small business operating as an air freight forwarder could be negatively impacted as they would be required to file and remit corporate income taxes.

FISCAL DESCRIPTION

INDIVIDUAL INCOME TAX

For all tax years beginning after the final incremental tax rate reduction in current law, this act reduces the top rate of tax by 0.3%, with an eventual top rate of tax of 4.8%. (Section 143.011)

CORPORATE TAXATION

This act adds "qualified air freight forwarders", as defined in the act, to the definition of "corporation" as a transportation corporation for the purposes of corporate income allocation. (Section 143.441).

FISCAL DESCRIPTION (continued)

USE TAX ECONOMIC NEXUS

Beginning January 1, 2022, this act provides that all vendors 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 use tax due as if such vendor maintained a physical presence in the state. This provision shall only apply to vendors who make at least \$100,000 in gross revenue from the delivery of tangible personal property into this state in the previous or current calendar year.

No obligation to collect and remit use tax under this provision shall be applied prior to January 1, 2022.

The use tax collections made under the provisions of this act shall be deposited in the General Revenue Fund as provided under current law. (Section 144.612)

MARKETPLACE FACILITATORS

By January 1, 2022, marketplace facilitators, as defined in the act, that meet the use tax economic nexus threshold established in the act shall register with the Department to collect and remit sales and use tax on sales made into the state through the marketplace facilitator's marketplace by or on behalf of a marketplace seller, as defined in the act. Such retail sales shall include those made directly by the marketplace facilitator as well as those made by marketplace sellers through the marketplace facilitator's marketplace. Sales made through a marketplace facilitator shall be deemed to be consummated at the location to which the item is shipped or delivered, or at which possession is taken by the purchaser.

Marketplace facilitators shall report and remit sales and use tax collected under this act on a separate form developed by the Department. Marketplace facilitators properly collecting and remitting sales and use 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 and use tax was collected and shall be remitted on the purchaser's behalf.

No class action shall be brought against a marketplace facilitator in any court in this state on behalf of purchasers arising from or in any way related to an overpayment of sales or use tax collected on retail sales facilitated by a marketplace facilitator, regardless of whether that claim is characterized as a tax refund claim.

If the Department audits a marketplace facilitator, it shall only audit such facilitator and not the marketplace sellers on behalf of whom the marketplace facilitator facilitates sales.

FISCAL DESCRIPTION (continued)

Marketplace facilitators may apply to the Department for relief from liability for the failure to collect and remit the correct amount of sales or use tax on retail sales facilitated for marketplace sellers under certain circumstances, as described in the act. Relief from liability shall be a percentage of the sales and use tax collected by the marketplace facilitator, with such percentage being four percent for sales made during the 2022 calendar year, two percent for sales made during the 2023 calendar year, one percent for sales made during the 2024 calendar year, and zero percent thereafter.

The Department may grant a waiver from the requirements of the act if a marketplace facilitator demonstrates to the satisfaction of the Department that all of its marketplace sellers are already registered to collect and remit sales and use tax. If such waiver is granted, the sales or use tax due shall be collected and remitted by the marketplace seller. (Section 144.752)

SALES TAX ADMINISTRATION

This act provides that 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. (Section 32.087)

This act makes changes to several sections of law relating to local sales taxes in order to make the administration of such taxes uniform. (Sections 66.601 to 94.705, 184.845, 221.407, 238.235, 238.410, 644.032)

This act modifies certain exemptions from state sales tax to make such exemptions uniform across the state and local sales tax bases. (Section 144.030)

The school and Show Me Green sales tax holidays are modified 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. (Sections 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. (Section 144.060)

A certified service provider (CSP), 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. (Section 144.109)

FISCAL DESCRIPTION (continued)

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 and CSPs will be relieved from liability if they fail to properly collect tax based upon information provided by the Department. Certified service providers, sellers, and marketplace facilitators may utilize proprietary data, provided the Director certifies that such data meets the standards provided for under the act. (Sections 144.123 and 144.124)

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. (Section 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. (Section 144.140)

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. (Section 144.285).

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. (Section 144.600)

These provisions are substantially similar to provisions contained in SS/SCS/SBs 46 & 50 (2019) and are similar to SS#2/SCS/SBs 617, 611, & 667 (2018), HB 1479 (2018), HB 1699 (2018), HB 1836 (2018), HB 2162 (2018), HB 2269 (2018), SCS/SB 105 (2017), SCS/SB 795 (2016), HB 726 (2015), HB 727 (2015), and HCS/HB 1356 (2013), and to provisions contained in HB 2691 (2018), HB 500 (2013), HB 422 (2013), HB 521 (2013), and HB 579 (2013).

LOCAL SALES AND USE TAXES

For all tax years beginning on or after January 1, 2022, this act places a limit on the total combined rate of local sales taxes by providing that the total combined rate of local sales taxes imposed by a taxing entity that is an incorporated city, town, or village shall not exceed 4.5%. The total combined rate of local sales taxes imposed by a county shall not exceed 3.25%. For all

FISCAL DESCRIPTION (continued)

other taxing jurisdictions, the total combined rate of sales taxes in any given taxing jurisdiction shall not exceed 3.25%. Such limits shall not apply to transient guest taxes or convention and tourism taxes.

In any election in which more than one sales tax levy is approved by the voters, and the passage of such levies results in a combined rate of sales tax in excess of the limits provided under the act, only the sales tax levy receiving the most votes shall become effective.

For all tax years beginning on or after January 1, 2022, all taxing jurisdictions levying a local sales tax shall reduce such levy to a rate that will produce substantially the same amount of revenue collected from such sales tax during fiscal year 2020, plus five percent of such amount. Such taxing jurisdictions shall provide data to the State Auditor substantiating that such tax rate complies with such rollback, as described in the act. (Section 32.087)

This act modifies ballot language required for the submission of a local use tax to voters by including language stating that the approval of the local use tax will eliminate the disparity in tax rates collected by local and out-of-state sellers by imposing the same rate on all sellers. (Section 144.757)

EFFECTIVE DATE

The provisions of this act relating to sales tax administration, use taxes, and the income tax rate reduction shall become effective January 1, 2022. The remaining provisions shall become effective August 28, 2020.

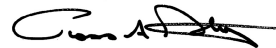
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
Missouri Department of Conservation
Missouri Department of Natural Resources
City of Springfield
City of Kansas City
City of St. Louis
Missouri Attorney General's Office
Joint Committee on Administrative Rules
Missouri Department of Transportation
Missouri Secretary of State's Office
Missouri State Auditor's Office
Missouri Department of Economic Development



Julie Morff
Director
February 10, 2020



Ross Strobe
Assistant Director
February 10, 2020