COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3422-07
Bill No.: SCS for SB 648
Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Taxation and Revenue Sales and Use; Cities, Towns and Villages; Counties
Type: Original
Date: February 17, 2020

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
General Revenue	$0	Could exceed ($6,372,294)	Less than $73,493,609 to $113,293,609	(Could exceed $59,396,823) to ($16,896,823)
Total Estimated Net Effect on General Revenue	**$0**	**Could exceed ($6,372,294)**	**Less than $73,493,609 to $113,293,609**	**(Could exceed $59,396,823) to ($16,896,823)**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 36 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
School District Trust Fund (0688)	$0	$309,236	Less than $25,718,471 to $38,918,471	Less than $27,518,471 to $41,618,471
Conservation Commission Fund (0609)	$0	$38,654	Less than $3,177,309 to $4,877,309	Less than $3,477,309 to $5,177,309
Parks and Soils State Sales Tax Fund(s) (0613 & 0614)	$0	$30,924	Less than $2,561,847 to $3,861,847	Less than $2,761,847 to $4,161,847
Total Estimated Net Effect on Other State Funds	**$0**	**$378,814**	**Less than $31,457,627 to $47,657,627**	**Less than $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 All 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			36 FTE	36 FTE
Total Estimated Net Effect on FTE	**0**	**0**	**36 FTE**	**36 FTE**

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2021	FY 2022	FY 2023	Fully Implemented (FY 2025)
Local Government - Local Political Subdivisions	**$0**	**($17,469,365)**	**Less than $3,431,404 to $24,031,404**	**Less than $6,141,404 to $28,141,404**

FISCAL ANALYSIS

ASSUMPTION

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

Officials from the **Office of Administration - Budget & Planning Division (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 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 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, could be significant, amount. This provision may reduce Total State Revenue (TSR) and General Revenue (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 320.87.3(5) would require local taxing jurisdictions that levy a use tax to reduce their sales and use tax rates beginning on January 1, 2023 if revenues during 2022 were in excess of the use tax growth allowance. The reduction in the tax rates shall be by an amount that leaves collections substantially similar to the total sales and use tax growth allowance. The total sales and use tax growth allowance is calculated by taking the amount of local sales tax remittances during 2022 plus the use tax growth allowance (the highest amount of local use taxes from 2018, 2019, 2020, or 2021 plus 5%).

B&P notes that this cap and subsequent adjustment would be applied prior to the collection of online use taxes. B&P notes that Section 144.655 allows out-of-state sellers to file annual use tax returns; therefore, local use tax revenue from online sales would not be received by localities until after January 31, 2023. Therefore, B&P estimates that this provision may reduce local revenues, if there are any jurisdictions where use tax revenues increased by more than 5% during Calendar Year 2022. If any jurisdictions are subsequently required to roll back their sales and use tax levies, then the 1% DOR collection fee may be reduced. Therefore, this provision may also reduce TSR.

Officials from **DOR** state Section 32.087.3(2) would place a limit on the combined sales tax rate of local political subdivisions. It is unclear what actions political subdivisions should take if they are already over the combined stated limit. If political subdivisions are required to lower their tax

ASSUMPTION (continued)

rate it could result in less money for the political subdivision and, potentially, DOR could lose their 1% collection fee, if it is currently collected. DOR assumes this will have an unknown impact to locals and DOR.

Section 32.087.3(5) would require the lowering of individual use tax levies by local political subdivisions, starting January 1, 2023, if they are in excess of the stated use tax growth allowance. DOR notes the out-of-state seller's requirements to file would be prior to the reduction required by the proposal. DOR is unable to determine if any political subdivisions would have to lower their levy but assume that if they do, it would be a loss to the political subdivision and a potential decrease of DOR'S 1% collection fee.

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-forth percent (3.25%) and all local sales tax imposed by any other taxing jurisdiction be equal to or less than three and one-forth percent (3.25%) when not including the overlapping of tax(es) imposed by cities, towns, villages, or counties. When combined with the state sales tax rate (4.225%), this would allow for a combined 15.225% rate (4.225% + 4.50% + 3.25% + 3.25%) 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, 2023 and ending on or before December 31, 2023, any taxing jurisdiction that levies a local use tax and receives local use tax revenues during Calendar Year 2022 in excess of the use taxes growth allowance, such taxing jurisdiction would be required to revise the tax rate to a rate that would produce substantially the same amount of use tax revenue received during Calendar Year 2022 as the total sales and use tax growth allowance.

Oversight notes use tax growth allowance is defined as the highest amount of revenue collected from local use tax remittances during any of the calendar years beginning on or after January 1, 2018 and ending on or before December 31, 2021, plus five percent.

Oversight notes total sales and use tax allowance is defined as the sum of the sales tax allowance plus the use tax growth allowance.

Oversight notes the sales tax allowance is defined as the revenue collected from local sales tax remittances during Calendar Year 2022.

ASSUMPTION (continued)

Oversight notes it is left at the discretion of the local taxing jurisdiction to decide which year produced the highest amount of revenue collected in any one of the years. Oversight notes, once the rate has been revised, it shall remain in effect for all subsequent tax years unless modified by a vote of the people.

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, SAO shall provide the findings to the taxing jurisdictions with a recalculated rate.

Oversight notes, at the current time, it is impossible to know with a guarantee whether any sales or use tax rates imposed by local taxing jurisdictions would produce revenues in excess of the highest amount recognized in one calendar year between Calendar Year 2018 through Calendar Year 2021, plus five percent for use tax and the amount recognized during Calendar Year 2022 for sales tax. Local taxing jurisdictions would not know whether their sales and use tax rate would need to be revised until after Calendar Year 2022 has expired when total revenues for that calendar year can be evaluated. Today, the local fiscal impact is $0 to a negative unknown; $0 if no local taxing jurisdictions sales and use tax collections exceed revenue collections within the defined time frame(s) and a negative unknown being the local taxing jurisdictions that, in the future, determine their sales and use tax rate imposed produced revenues in excess of revenue collections within the defined time frame(s), requiring them to lower their sales and use tax rate imposed. Oversight notes the first fiscal year in which local taxing jurisdictions could experience revenue reductions would be Fiscal Year 2023; 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 reflecting the effective date within while including a map of the new territory.

Section 135.550 - Domestic Violence Shelter Tax Credit (Begins 1/1/2022)

Officials from the **Missouri Department of Social Services (DSS)** assume the change in the Domestic Violence Tax Credit will not cause a fiscal impact on their agency.

Oversight notes DSS does not anticipate a fiscal impact as a result in the increased cap for the Domestic Violence Shelter Tax Credit. Oversight does not have any information to the contrary. Therefore, Oversight will report a zero fiscal impact for DSS.

ASSUMPTION (continued)

Officials from **B&P** state this section would expand the definition of a domestic violence shelter. This provision would also increase the redemption cap from $2.0 million to $3.0 million beginning with Fiscal Year 2022.

B&P notes that Section 135.550.6 would increase the redemption cap for all fiscal years beginning July 1, 2021. However, Section B would not enact this provision until January 1, 2022 which is six months later. B&P notes that this is a cap on redemptions and not authorizations. Therefore, B&P assumes that once enacted, taxpayers will be allowed to redeem tax credits that would have otherwise been earned between July 1, 2021 and January 1, 2022. B&P notes that these tax credits are taken against individual income tax liabilities, with final returns filed between January 1st and April 15th of the year following the qualifying donation. Therefore, B&P will show the full $1.0 million cap increase as impact Fiscal Year 2022.

B&P estimates that this provision may reduce TSR and GR by up to $1.0 million annually beginning in Fiscal Year 2022.

Oversight notes B&P assume this provision would reduce TSR and GR by an amount up to $1,000,000 beginning in Fiscal Year 2022.

Officials from **DOR** state this proposal expands the existing program to allow a nonprofit organization established and operating for the purpose of a shelter for victims of domestic violence and are operated by the state or a political subdivision to also receive this credit. This could potentially expand the number of taxpayers that could claim the tax credit. Additionally, this proposal increases the cap to $3 million starting July 1, 2021 (Fiscal Year 2022).

Currently, a taxpayer shall be allowed to claim a tax credit against the taxpayer's state tax liability, in an amount equal to fifty percent of the amount such taxpayer contributed to a shelter for victims of domestic violence. No taxpayer is allowed to claim more than $50,000 and the total cumulative cap on the program is two million dollars ($2,000,000) annually.

DOR notes the current tax credit program has issued the following amount of credits:

Fiscal Year 2015	$1,426,180
Fiscal Year 2016	$1,892,974
Fiscal Year 2017	$1,611,058
Fiscal Year 2018	$1,871,245
Fiscal Year 2019	$1,852,801

ASSUMPTION (continued)

DOR assumes this could be an additional loss to GR of $0 (no additional credits are issued) to $1 million (the increase in the cap) starting in Fiscal Year 2022.

Oversight notes DOR assumes an impact equal to $0 of no additional tax credits are issued and redeemed or to an amount up to $1,000,000, with additional tax credits being issued and redeemed in excess of the current $2,000,000 cap.

Officials from the **Missouri Department of Commerce and Insurance (DCI)** state this proposed legislation could have a potential unknown decrease of premium tax revenues (up to the tax credit limit established in the bill) as a result of the increase to the "Domestic Violence" tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year and which insurers will qualify for the tax credit proposed.

Oversight notes, per the Tax Credit Analysis Form, for the Shelter for Victims of Domestic Violence Tax Credit, the following activity has been recognized:

	FY 2017 ACTUAL	FY 2018 ACTUAL	FY 2019 ACTUAL	FY 2020 (year to date)	FY 2020 (Full year)	FY 2021 (Budget Year)
Certificates Issued (#)	2364	2403	2035		2450	2450
Projects (#)	N/A	N/A	N/A	N/A	N/A	N/A
Amount Authorized	$1,611,058	$1,871,245	$1,752,801		$1,800,000	$1,800,000
Amount Issued	$1,611,058	$1,871,245	$1,852,801		$1,800,000	$1,800,000
Amount Redeemed	$1,476,638	$1,510,572	$883,099		$1,300,000	$1,300,000

For purposes of this fiscal note, Oversight will report the fiscal impact for the increase in the Domestic Violence Tax Credit cap as an amount equal to a negative “Up to $1,200,000" annually beginning in Fiscal Year 2022, from the $1 million increase in the cap, plus the potential increased utilization of the tax credit of $200,000 (current $2 million cap - FY 2021 estimated issuances of $1.8 million) from expanding the definition of “shelter for victims of domestic violence”.

ASSUMPTION (continued)

Section 143.011 - Individual Income Tax Rate Reduction (Begins 1/1/2022)

Officials from **B&P** state Section 143.011.4 would reduce the top individual income tax rate by 0.15% 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.

The rate reduction authorized under subsection 143.011.4 shall only occur once the amount of net general revenue collected in the previous year exceeds the highest amount of net general revenue collected in any of the three prior fiscal years by $150 million. Therefore, in order for the reduction to occur in Tax Year 2024, Fiscal Year 2023 net general revenue collections would need to be at least $150 million larger than the highest amount collected in either Fiscal Year 2020, Fiscal Year 2021, or Fiscal Year 2022.

For the purpose of this fiscal note, B&P will assume that the growth trigger is met in Fiscal Year 2023 and the rate reduction will occur for Tax Year 2024. B&P acknowledges, however, that the rate reduction may not be triggered until a later fiscal year.

Accounting for the changes in individual income tax law created by SB 509 (2014), HB 2540 (2018) and the TCJA (2017), B&P estimates that this section will reduce TSR and GR by $138.5M in Tax Year 2024.

However, because this proposal would take effect January 1, 2024 individuals will adjust their withholdings and declarations during Fiscal Year 24. Therefore, B&P estimates that this proposal will reduce TSR and GR by $58.2M in Fiscal Year 2024. Once fully implemented in Fiscal Year 2025, and annually thereafter, this proposal will reduce TSR and GR by $138.5M.

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 (58%) 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.

Officials from **DOR** state this proposal would require that, after the SB 509 (2014) rate reductions that are currently scheduled to occur; the following year an additional fifteen-hundreds of one percent (.15%) reduction in the individual income tax shall take place. This proposal adds that this reduction would only occur if net general revenue collected in any of

ASSUMPTION (continued)

the three fiscal years prior to such fiscal year is at least one hundred fifty million dollars ($150,000,000). Therefore, it leaves in place the SB 509 rate reduction trigger before making this reduction. DOR assumes that SB 509 triggers each year consecutively for fiscal note purposes.

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)

This proposal would decrease the individual income tax rate in Tax Year 2024 to 4.95%. 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	($57,957,378)	($137,601,440)

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 1/1/2022)

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.

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

Oversight notes this section includes qualified air freight forwarders within the meaning of "corporation." A qualified air fright 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.

ASSUMPTION (continued)

Section 144.030 - Sales Tax Exemptions (Begins 1/1/2022)

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.

Officials from **DOR** state this section includes a sales tax exemption for usual and customary delivery charges. These are already exempt from sales tax, so this provision will not have a fiscal impact.

Section 144.049 - Back-to-School Sales Tax Holiday (Begins 1/1/2022)

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. 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.

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 $677,464 was collected on such qualifying items during Tax Year 2018 and $424,484 in Tax Year 2019 for an average of $550,974 each year. Thus, local political

ASSUMPTION (continued)

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 1/1/2022)

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 decreased revenue to the locals in Fiscal Year 2022.

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 144.526 Show-Me Green Sales Tax Holiday (Begins 1/1/2022)

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.

ASSUMPTION (continued)

In Tax Year 2018, 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. 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 as it relates to the Show-Me Green Sales Tax Holiday.

Section 144.517 (Repealed) - Textbook Sales Tax Exemption (Begins 1/1/2022)

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 increased TSR by $2,613,039 annually. This proposal has an effective date of January 1, 2022. This provision would result in 6 months of collection of the tax beginning in Fiscal Year 2022.

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

ASSUMPTION (continued)

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 funds respective debit percentage. Oversight notes Fiscal Year 2022 will receive approximately 6 months worth, or half, of the $2,613,039.

Sections 144.123, 144.612, 14.655, and 144.752 - Online Use Tax (Begins 1/1/2022)

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 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.

ASSUMPTION (continued)

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

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

B&P and DOR estimate that in Calendar Year 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.

ASSUMPTION (continued)

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 $115.2 million to $176.0 million, of which $81.8 million to $125.0 million would be GR. Table 2 shows the estimated impact by fiscal year.

Table 2: Collections by Fiscal Year

Revenue Estimates	2023		2024		2025	
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.

ASSUMPTION (continued)

Officials from **DOR** state this proposal would require retailers without a physical presence in Missouri to collect and remit use tax on purchases if they do over $100,000 in business in Missouri.

DOR and B&P 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 Tax 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 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. DOR 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.

By Sales 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

ASSUMPTION (continued)

DOR notes this proposal becomes effective January 1, 2022. The out-of-state sellers are required to remit the tax annually. 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	2023		2024		2025	
General Revenue	**$75.20**	**$115**	**$78.20**	**$119.50**	**$80.60**	**$123.10**
Education	$25.1	$38.3	$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

DOR would notify an estimated 200,000 sellers of their potential reporting requirements. Estimated postage and printing costs for such notification to online sellers is estimated to be up to $100,000.

Oversight notes DOR anticipates the postage and printing costs for notifying online sellers of their potential reporting requirements to equal up to $100,000. Oversight assumes DOR could anticipate additional postage and printing costs each year thereafter, depending on the amount of "new" businesses DOR deems responsible for such reporting requirements. Therefore, Oversight will report an (Unknown) fiscal impact for these costs each year after Fiscal Year 2021.

DOR assumes it will require the following for their Sales and Use Tax Section:

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

ASSUMPTION (continued)

DOR assumes it will 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-compliance tax base. DOR would need to add twenty-five (25) auditors. DOR believes the twenty-five total auditors could 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 the implementation of this proposed legislation. DOR further estimates it 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.

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 and DOR.

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.

ASSUMPTION (continued)

Officials from the **City of Columbia (Columbia)** state, if local voters approved a use tax, Columbia expects a positive fiscal impact from the ability to tax online sales.

Oversight notes Columbia anticipates a positive fiscal impact as a result of this proposed legislation, provide the voters of Columbia approved a use tax. For purposes of this fiscal note, Oversight will report the positive fiscal impact to local political subdivisions as reported by B&P and DOR.

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

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 (as shown above in the previous tables).

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.

ASSUMPTION (continued)

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.

Section 144.710 - Use Tax Timely Filing Discount (Begins 1/1/2022)

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).

Officials from **DOR** state this provision replaces the sales tax timely filing discount with a use tax timely filing discount. Currently, both rates are the same and therefore, this provision is not expected to have a fiscal impact.

Section 144.757 - Local Ballot Language (Begins 1/1/2022)

Officials from **B&P** state this section would alter the ballot language for certain local sales and use taxes which must be voter approved. The language removes the $2,000 minimum threshold required before a purchaser must file a use tax return. B&P notes that currently Missouri residents are not required to file a use tax return until total purchases within a calendar year reaches $2,000. However, once that minimum threshold has been reached, taxpayers are already required to pay use tax on the full amount of purchases, not just the amount over $2,000. While use tax is legally due on all out-of-state purchases, B&P notes that it is not cost effective to audit taxpayers whose online purchases are lower than $2,000. Therefore, this section will not impact TSR or the calculation under Article X, Section 18(e).

DOR assumes that changing the ballot language would not have a fiscal impact on their agency.

ASSUMPTION (continued)

Section 144.124 - DOR Taxability Matrix

Officials from **DOR** state this provision would require DOR to complete and maintain a taxability matrix for sellers to use. DOR anticipates this would require a totally new program that would require DOR to contract with a vendor. DOR believes the fiscal impact for this would be significantly greater than $5 million. This legislation requires DOR to have a specific code for every single product and taxing district, and to update when new products hit the market. This will result in an unknown, but potentially significant administrative impact. For the purposes of this fiscal note, DOR will estimate a need for 3 FTE. If the administrative impact is more significant than anticipated, additional FTE will be requested through the appropriations process.

Oversight notes DOR anticipates the new matrix would require approximately $5 million to complete and three (3) Revenue Processing Technicians I to oversee the matrix. Oversight will report DOR's administrative impact as reported by DOR.

B&P Proposed Legislation Summary

State Impacts	FY 2022		FY 2023		FY 2024		Fully Implemented	
	Low	High	Low	High	Low	High	Low	High
Individual Income Tax Reduction	$0.00	$0.00	$0.00	$0.00	($58.20)	($58.20)	($138.50)	($138.50)
Domestic Violence Shelter Tax Credit	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)	($1.00)
Corporate Tax - Air Freight Forwarders	$0.00	$0.00	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)	(Unk)
Online Use Tax Collection	$0.00	$0.00	$106.00	$161.90	$110.20	$168.30	$113.50	$173.40
Textbook Sales Tax Exemption - Repealed	$1.30	$1.30	$2.60	$2.60	$2.60	$2.60	$2.60	$2.60
Total Estimated Impact to State Revenues	**$0.30**	**$0.30**	**$107.60**	**$163.50**	**$53.60**	**$111.70**	**($23.40)**	**$36.50**

Figures in $M

ASSUMPTION (continued)

Local Impacts	FY 2022		FY 2023		FY 2024		Fully Implemented	
	Low	High	Low	High	Low	High	Low	High
Online Use Tax Collection	$0.00	$0.00	$38.90	$59.50	$40.50	$61.90	$41.70	$63.70
Reduction in Sales and Use Tax Levy	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Back-to-School Sales Tax Holiday	$0.00	$0.00	($0.40)	($0.40)	($0.40)	($0.40)	($0.40)	($0.40)
Manufacturing Sales Tax Exemption	($17.40)	($17.40)	($34.90)	($34.90)	($34.90)	($34.90)	($34.90)	($34.90)
Show-Me Green Sales Tax Holiday	($0.02)	($0.02)	($0.02)	($0.02)	($0.02)	($0.02)	($0.02)	($0.02)
Total Estimated Impact to Local Revenues	**($17.40)**	**($17.40)**	**$3.60**	**$24.20**	**$5.20**	**$26.60**	**$6.40**	**$28.40**

Figures in $M

State Funds	FY 2022		FY 2023		FY 2024		Fully Implemented	
	Low	High	Low	High	Low	High	Low	High
General Revenue	($0.10)	($0.10)	$76.10	$115.90	$20.90	$62.20	($57.00)	($14.50)
Education	$0.30	$0.30	$25.70	$38.90	$26.70	$40.40	$27.50	$41.60
Park, Soil, Water	$0.03	$0.03	$2.60	$3.90	$2.70	$4.10	$2.70	$4.20
Conservation	$0.04	$0.04	$3.20	$4.90	$3.40	$5.10	$3.40	$5.20

Figures in $M

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

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

ASSUMPTION (continued)

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.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
GENERAL REVENUE FUND				
<u>Revenue Reduction</u> - Section 32.087 - Local Rate Reduction - DOR 1% Fee - p. 4	$0	$0	(Unknown)	(Unknown)
<u>Revenue Reduction</u> - Section 135.550 - Increase in Domestic Violence Shelter Tax Credit Cap - p. 8	$0	(Up to $1,200,000)	(Up to $1,200,000)	(Up to $1,200.000)
<u>Revenue Reduction</u> - Section 143.011 - Income Tax Rate Reduction - p. 9	$0	$0	$0	($138,500,000)
<u>Revenue Reduction</u> - Section 143.441 - Air Freight Forwarders - p. 10	$0	$0	(Unknown)	(Unknown)
<u>Cost</u> - DOR - Section 144.123 - DOR Tax Database(s) - p. 22	$0	(Greater than $1,000,000)	(Unknown)	(Unknown)
<u>Cost</u> - DOR - Section 144.124 - Taxability Matrix - p. 23	$0	(Greater than $5,000,000)	$0	$0

FISCAL IMPACT - State Government (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
Cost - DOR - Section 144.123, 144.612, 144.655 & 144.752 - Online Use Tax Collection - p. 19 & 20				
Personal Services	$0	$0	($1,278,642)	($1,304,343)
Fringe Benefits	$0	$0	($839,357)	($847,892)
Equipment & Expense	$0	$0	($243,804)	$0
Postage and Printing	$0	($100,000)	(Unknown)	(Unknown)
Total Cost - DOR - All Sections	$0	(Greater than $6,100,000)	(Could exceed $2,361,803)	(Could exceed $2,152,235)
Revenue Gain - Section 144.517 - Textbook Sales Tax - p. 13	$0	$927,706	$1,855,412	$1,855,412
Revenue Gain - Section 144.123, 144.612, 144.655 & 144.752 - Online Use Tax Collection - p. 16	$0	$0	Less than $75,200,000 to $115,000,000	Less than $80,600,000 to $123,100,000
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**Could exceed ($6,372,294)**	**Less than $73,493,609 to $113,293,609**	**(Could exceed $59,396,823) to ($16,896,823)**
Change in FTE - DOR - p. 19 & 20	$0	$0	36 FTE	36 FTE

FISCAL IMPACT - State Government (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
SCHOOL DISTRICT TRUST FUND (0688)				
Revenue Gain - Section 144.123, 144.612, 144.655 & 144.752 - Online Use Tax Collection - p. 16	$0	$0	Less than $25,100,000 to $38,300,000	Less than $26,900,000 to $41,000,000
Revenue Gain - Section 144.517 - Textbook Sales Tax - p. 13	$0	$309,236	$618,471	$618,471
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0**	**$309,236**	**Less than $25,718,471 to $38,918,471**	**Less than $27,518,471 to $41,618,471**
CONSERVATION COMMISSION FUND (0609)				
Revenue Gain - Section 144.123, 144.612, 144.655 & 144.752 - Online Use Tax Collection - p. 16	$0	$0	Less than $3,100,000 to $4,800,000	Less than $3,400,000 to $5,100,000
Revenue Gain - Section 144.517 - Textbook Sales Tax - p. 13	$0	$38,654	$77,309	$77,309

FISCAL IMPACT - State Government (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**$38,654**	**Less than $3,177,309 to $4,877,309**	**Less than $3,477,309 to $5,177,309**
PARKS AND SOILS STATE SALES TAX FUND(S) (0613 & 0614)				
Revenue Gain - Section 144.123, 144.612, 144.655 & 144.752 - Online Use Tax Collection - p. 16	$0	$0	Less than $2,500,000 to $3,800,000	Less than $2,700,000 to $4,100,000
Revenue Gain - Section 144.517 - Textbook Sales Tax - p. 13	$0	$30,924	$61,847	$61,847
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUND(S)	**$0**	**$30,924**	**Less than $2,561,847 to $3,861,847**	**Less than $2,761,847 to $4,161,847**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023	Fully Implemented (FY 2025)
LOCAL POLITICAL SUBDIVISIONS				
Revenue Reduction - Section 32.087 - Local Rate Reduction - p. 4	$0	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Revenue Reduction - Section 144.049 - Back-to-School Sales Tax Holiday - p. 11	$0	$0	($550,974)	($550,974)
Revenue Reduction - Section 144.526 - Show-Me Green Sales Tax Holiday - p. 13	$0	($21,108)	($21,108)	($21,108)
Revenue Reduction - Section 144.054 - Manufacturing Sales Tax Exemption - p. 12	$0	($17,448,257)	($34,896,514)	($34,986,514)
Revenue Gain - Section 144.123, 144.612, 144.655 & 144.752 - Online Use Tax Collection - p. 16	$0	$0	Less than $38,900,000 to $59,500,000	Less than $41,700,000 to $63,700,000
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**($17,469,365)**	**Less than $3,431,404 to $24,031,404**	**Less than $6,141,404 to $28,141,404**

FISCAL IMPACT - Small Business

The collection of use tax from out-of-state sellers could even the playing field for local in-state small businesses; therefore, they could experience revenue growth. Out-of-state businesses would be required to collect and remit the tax to the Missouri Department of Revenue; increasing their administrative costs and decreasing their net revenues. (Section(s) 144.123, 144.612, 144.655 & 144.752)

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. (Section 32.087)

This proposed legislation could impact any small business that qualifies for the Domestic Violence Shelter Tax Credit, as they could reduce their state tax liability, netting additional profit. (Section 135.550)

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. (Section 143.441)

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 0.15%, with an eventual top rate of tax of 4.95%. Such reduction shall only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars. (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)

DOMESTIC VIOLENCE SHELTER TAX CREDIT

Current law allows for a tax credit for contributions to domestic violence shelters . This act modifies the definition of "shelter for victims of domestic violence" to include nonprofit organizations established and operating exclusively for the purpose of supporting a shelter for victims of domestic violence operated by the state or one of its political subdivisions.

FISCAL DESCRIPTION (continued)

This act also increases the maximum amount of tax credits that may be claimed in any one fiscal year from $2 million per year to $3 million per year for all fiscal years beginning on or after July 1, 2021. (Section 135.550)

This provision is identical to SB 958 (2020).

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.

FISCAL DESCRIPTION (continued)

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.

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. (Section 32.087)

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)

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%.

FISCAL DESCRIPTION (continued)

The total combined rate of local sales taxes imposed by a county shall not exceed 3.25%. For all 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 the tax year beginning on or after January 1, 2023, and ending on or before December 31, 2023, if a taxing jurisdiction levying a local use tax received local use tax revenues during the 2022 calendar year in excess of the use tax growth allowance, as defined in the act, such taxing jurisdiction shall revise such levy and the corresponding local sales tax levy to a rate that would have produced substantially the same amount of revenue during the 2022 calendar year as the total sales and use tax growth allowance, as defined in the act. 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)

This provision is identical to a provision contained in SB 189 (2019).

EFFECTIVE DATE

The provisions of this act shall become effective January 1, 2022.

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 Social Services
Missouri Department of Commerce and Insurance
Missouri Secretary of State's Office
Joint Committee on Administrative Rules
Missouri Attorney General's Office
Missouri Department of Natural Resources
Missouri Department of Conservation
City of Columbia

Julie Morff
Director
February 17, 2020

Ross Strope
Assistant Director
February 17, 2020

TS:LR:OD