

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4047-01
Bill No.: SB 757
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: March 10, 2020

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue*	(\$4,029,135) to could exceed (\$30,047,033)	(\$4,834,962) to could exceed (\$36,056,440)	(\$4,834,962) to could exceed (\$36,056,440)
Total Estimated Net Effect on General Revenue	(\$4,029,135) to could exceed (\$30,047,033)	(\$4,834,962) to could exceed (\$36,056,440)	(\$4,834,962) to could exceed (\$36,056,440)

***Oversight notes the estimated decrease to GR is a result of the exemption of state sales tax on various inputs and outputs of the generation, transmission, distribution and sale or furnishing of electricity. There are various data sources and methods that may be used to estimate the impact of the exemption that produce multiple outcomes.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
School District Trust	(\$1,343,045) to could exceed (\$10,015,678)	(\$1,611,654) to could exceed (\$12,018,813)	(\$1,611,654) to could exceed (\$12,018,813)
Conservation Commission	(\$167,881) to could exceed (\$1,251,960)	(\$201,457) to could exceed (\$1,502,352)	(\$201,457) to could exceed (\$1,502,352)
Parks and Soils State Sales Tax Funds	(\$134,305) to could exceed (\$1,001,568)	(\$161,165) to could exceed (\$1,201,881)	(\$161,165) to could exceed (\$1,201,881)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$1,645,231) to could exceed (\$12,269,206)	(\$1,974,276) to could exceed (\$14,723,046)	(\$1,974,276) to could exceed (\$14,723,046)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

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

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

Missouri Department of Revenue (DOR) reports the taxable sales in 2018 from various electrical utility related industries as shown below.

Method 1 - Lower Bound Estimates

Tax Type	SIC	NAICS	Description	CY 2018	Percent
Use	491, 493	221111	HYDROELECTRIC POWER GENERATION	\$41,002,269	100%
Use	491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$8,590,475	100%
Use	491, 493	221113	Nuclear Electric Power Generation	\$0	100%
Use	491, 493	221114	Solar Electric Power Generation	\$0	100%
Use	491, 493	221115	Wind Electric Power Generation	\$0	100%
Use	491, 493	221116	Geothermal Electric Power Generation	\$0	100%
Use	491, 493	221117	Biomass Electric Power Generation	\$0	100%
Use	491, 493	221118	Other Electric Power Generation	\$0	100%
Use	491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$9,489,866	100%
Use	491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$40,516,211	100%
Use	493	221210	NATURAL GAS DISTRIBUTION	\$14,446,410	100%
Sales	364	332216	Saw Blade and Handtool Manufacturing	\$501,035	100%
Sales	369	333318	Other Commercial and Service Industry Machinery Manufacturing	\$1,379,746	60%
Sales	369	333992	Welding and Soldering Equipment Manufacturing	\$226,371	60%
Sales	364	335110	Electric Lamp Bulb and Part Manufacturing	\$0	100%
Sales	364	335121	Residential Electric Lighting Fixture Manufacturing	\$20,887,389	100%

ASSUMPTION (continued)

Sales	364	335122	Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing	\$135,683	100%
Sales	364, 369	335129	Other Lighting Equipment Manufacturing	\$0	60%
Sales	361	335311	Power, Distribution, and Specialty Transformer Manufacturing	\$20,924,672	100%
Sales	362	335312	Motor and Generator Manufacturing	\$16,553,028	100%
Sales	361	335313	Switchgear and Switchboard Apparatus Manufacturing	\$25,874,663	100%
Sales	362	335314	RELAY AND INDUSTRIAL CONTROL MANUFACTURING	\$189,353	100%
Sales	364	335931	Current-Carrying Wiring Device Manufacturing	\$2,520,617	100%
Sales	364	335932	Noncurrent-Carrying Wiring Device Manufacturing	\$5,579,717	100%
Sales	362	335991	Carbon and Graphite Product Manufacturing	\$0	100%
Sales	362, 369	335999	All Other Miscellaneous Electrical Equipment and Component Manufacturing	\$48,217,378	100%
Total Exempt Sales				\$257,034,885	

Based on this information, B&P estimates that this proposal could reduce Total State Revenue (TSR) by \$10,859,725 (\$257,034,885 x 4.225%) and General Revenue (GR) by \$7,711,047 (\$257,034,885 x 3.0%) annually. B&P notes, however, that this method of estimation likely does not capture all the taxable sales that would become exempt under this proposal, and that this impact reflects the bottom of the range for the decrease in revenue.

In order to determine an upper-bound estimate for the reduction to state revenues, B&P utilized the US Bureau of Economic Analysis (BEA) Input-Output Use Tables. According to the Input-Output Use Tables, inputs from commodities that might qualify under these exemptions are roughly 23.7% of the total output of the "utilities" industry. In addition, DOR reports that taxable sales of electric related utilities in 2018 were about \$5,060,986,163. This suggests that this proposal might exempt \$1,201,881,337 (\$5,060,986,163 * 23.7480%) in taxable sales from taxation.

Method 2 - Upper Bound Estimate

SIC	NAICS	Description	CY 2018
491, 493	221111	HYDROELECTRIC POWER GENERATION	\$2,066,314,975
491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$43,235,568
491, 493	221113	Nuclear Electric Power Generation	\$0
491, 493	221114	Solar Electric Power Generation	\$0
491, 493	221115	Wind Electric Power Generation	\$0
491, 493	221116	Geothermal Electric Power Generation	\$0
491, 493	221117	Biomass Electric Power Generation	\$0

ASSUMPTION (continued)

491, 493	221118	Other Electric Power Generation	\$0
491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$21,064,409
491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$2,341,344,874
492, 493	221210	NATURAL GAS DISTRIBUTION	\$583,290,873
492	486210	PIPELINE TRANSPORTATION OF NATURAL GAS	\$5,735,464
Total Sales			\$5,060,986,163
BEA Input / Output Adjustment			23.70%
Total Exempt Sales			\$1,201,881,337

B&P estimates that this would reduce TSR by \$50,779,486 ($\$1,201,881,337 \times 4.225\%$) and GR by \$36,056,440 ($\$1,201,881,337 \times 3.0\%$) annually. B&P notes, however, this method may overestimate the true reduction to state revenues by including items that would not become tax exempt under this proposal.

Therefore, using both the taxable sales reports provided by DOR and the US BEA Input-Output Use Tables, B&P estimates that this proposal could reduce TSR by \$10,859,725 to \$50,779,486 annually and GR by \$7,711,047 to \$36,056,440 once fully implemented in Fiscal Year 2022.

B&P estimates the following reduction to TSR per fund:

Table 3: State Impacts by Fund

Fund	FY 2021		FY 2022	
	Low	High	Low	High
GR	(\$6,425,873)	(\$30,047,033)	(\$7,711,047)	(\$36,056,440)
Education	(\$2,141,958)	(\$10,015,678)	(\$2,570,349)	(\$12,018,813)
Conservation	(\$267,745)	(\$1,251,960)	(\$321,294)	(\$1,502,352)
DNR	(\$214,196)	(\$1,001,568)	(\$257,035)	(\$1,201,881)
TSR Impact	(\$9,049,772)	(\$42,316,239)	(\$10,859,725)	(\$50,779,486)

Oversight notes this proposed legislation does not have an effective date and is assumed to go into effect, if enacted, on August 28, 2020 (Fiscal Year 2021). Oversight is unable to determine the filing frequency for entities remitting sales and use tax for the products that would become exempt under this proposed legislation nor how much sales and use tax is recognized at various times throughout each fiscal year. Therefore, for purposes of this fiscal note, Oversight will assume sales and use tax remittances of such items that would become exempt under this proposed legislation are done so monthly. Oversight will report a the fiscal impact in Fiscal Year 2021 showing ten out of the twelve months of Fiscal Year 2021 (excluding July and August - including September through June).

ASSUMPTION (continued)

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

Using information from the DOR's taxable sales database the following sales tax was collected in Calendar Year 2018 (the most recent complete year of data).

221111	HYDROELECTRIC POWER GENERATION	Use	100%	\$41,007,627.93
221112	FOSSIL FUEL ELECTRIC POWER GENERATION	use	100%	\$8,590,474.83
221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	Use	100%	\$9,570,805.75
221122	ELECTRIC POWER DISTRIBUTION	Use	100%	\$40,516,211.03
221210	NATURAL GAS DISTRIBUTION	Use	100%	\$14,438,224.63
332216	SAW BLADE AND HANDTOOL MANUFACTURING	Use	100%	\$627,616.66
333318	OTHER COMMERCIAL AND SERVICE INDUSTRY MACHINERY MANUFACTURING	Sales	60%	\$420,389.67
333992	WELDING AND SOLDERING EQUIPMENT MANUFACTURING	Sales	60%	\$0.00
335121	RESIDENTIAL ELECTRIC LIGHTING FIXTURE MANUFACTURING	Sales	100%	\$2,140,385.93
335122	COMMERCIAL, INDUSTRIAL, AND INSTITUTIONAL ELECTRIC LIGHTING FIXTURE MANUFACTURING	Sales	100%	\$0.00
335129	OTHER LIGHTING EQUIPMENT MANUFACTURING	Sales	60%	\$0.00
335311	POWER, DISTRIBUTION, AND SPECIALTY TRANSFORMER MANUFACTURING	Sales	100%	\$10,419,391.56
335312	MOTOR AND GENERATOR MANUFACTURING	Sales	100%	\$7,607,617.71
335313	SWITCHGEAR AND SWITCHBOARD APPARATUS MANUFACTURING	Sales	100%	\$0.00
335314	RELAY AND INDUSTRIAL CONTROL MANUFACTURING	Sales	100%	\$0.00
335931	CURRENT-CARRYING WIRING DEVICE MANUFACTURING	Sales	100%	\$1,829,902.54
335932	NONCURRENT-CARRYING WIRING DEVICE MANUFACTURING	Sales	100%	\$0.00
335999	ALL OTHER MISCELLANEOUS ELECTRICAL EQUIPMENT AND COMPONENT MANUFACTURING	Sales	100%	\$23,996,767.54
Total				\$161,165,415.78

ASSUMPTION (continued)

DOR notes the current Sales and Use tax rate is 4.225%; General Revenue is 3%, School District, Trust Fund is 1%, Conservation Commission Fund is .125% and Parks, Soil & Water Funds .1%.

DOR notes that this proposal may stop the tax currently given to GR and the School District Trust Fund (since these were statutorily created) however, it is unclear if the tax for the Conservation Commission and Parks, Soil & Water funds could be eliminated as they are constitutionally created. DOR notes this proposal would have an effective date of August 28, 2020 and therefore only 10 months would be collected in Fiscal Year 2021.

	FY 2021 (10 months)	FY 2022 and beyond
General Revenue	\$4,029,135	\$4,834,962
School District Trust	\$1,343,045	\$1,611,654
Conservation Commission	\$167,881	\$201,457
Parks, Soil & Water	\$134,305	\$161,165

Officials from the **University of Missouri’s Economic & Policy Analysis Research Center (EPARC)** state this bill would allow a sales tax exemption for items used in the production or transmission of electricity to customers. Using data from the U.S. Energy Information Administration, the Bureau of Labor Statistics and the Bureau of Economic Analysis EPARC estimates the annual operating cost (less employee wages and compensation) for all electrical producers in the State of Missouri to be \$2,995,480,901. However, since EPARC does not know to what extent these operating costs are already tax exempt, EPARC treated this estimation as a maximum impact estimate. Based on this figure, the table below shows the impact on state funds if these costs were to become tax exempt.

Fund	Sales Tax Rate	Decrease in Revenue
General Revenue	3.000%	\$89,864,427
School District Trust	1.000%	\$29,954,809
Conservation Commission	0.125%	\$3,744,351
Parks, Soil and Water	0.100%	\$2,995,481
Total	4.225%	\$126,559,068

Officials from the **Missouri Department of Conservation (MDC)** state this proposed legislation could have an unknown fiscal impact on MDC but anticipates the impact to be negative in an amount 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.

ASSUMPTION (continued)

Exempting electricity, gas, and the specified related infrastructure involved in the production or transmission of electricity to customers from tax will decrease sales tax collected and thus would decrease revenue to the Conservation Sales Tax funds. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes MDC's Conservation Commission Fund (0609) receives one-eighth of one percent of the revenues generated from sales and use tax. It is unclear whether this proposed legislation will impact MDC's Conservation Commission Fund as the distribution to the fund is constitutionally created.

For purposes of this fiscal note, Oversight will show the impact to the Conservation Commission Fund as a range beginning with the impact(s) estimated by DOR to impact(s) estimated by B&P.

Officials from the **Missouri Department of Natural Resources (DNR)** state creating the sales tax exemption for the production of electricity could decrease the amount of funding available in the Parks and Soils Sales Tax Funds for long term operation of Missouri's state parks and historic sites and assistance to agricultural landowners through volunteer programs.

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

Oversight notes 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. It is unclear whether this proposed legislation will impact DNR's Parks and Soils State Sales Tax Fund(s) as the distribution to the funds is constitutionally created.

For purposes of this fiscal note, Oversight will show the impact to the Parks and Soils State Sales Tax Fund(s) as a range beginning with the impact(s) estimated by DOR to impact(s) estimated by B&P.

Oversight has reviewed various sources of data: DOR's public information reports - taxable sales; U.S. Energy Information Administration, U.S. Department of Energy, Bureau of Economic Analysis and others and have determined that such data sources may and may not include more or less than the items proposed to be exempt from state sales and use taxes. Furthermore, Oversight assumes when identifying information using various NAICS Codes, the analyses becomes speculative based on the knowledge the reviewer may have or not have of the specific NAICS Codes.

Therefore, for purposes of this fiscal note, Oversight will report the fiscal impact using a range beginning with the lowest estimates (DOR) to an amount that could exceed B&P's estimates.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$4,029,135) to could exceed <u>(\$30,047,033)</u>	(\$4,834,962) to could exceed <u>(\$36,056,440)</u>	(\$4,834,962) to could exceed <u>(\$36,056,440)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$4,029,135) to could exceed (\$30,047,033)</u>	<u>(\$4,834,962) to could exceed (\$36,056,440)</u>	<u>(\$4,834,962) to could exceed (\$36,056,440)</u>
SCHOOL DISTRICT TRUST FUND (0688)			
<u>Revenue Reduction</u> - Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$1,343,045) to could exceed <u>(\$10,015,678)</u>	(\$1,611,654) to could exceed <u>(\$12,018,813)</u>	(\$1,611,654) to could exceed <u>(\$12,018,813)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$1,343,045) to could exceed (\$10,015,678)</u>	<u>(\$1,611,654) to could exceed (\$12,018,813)</u>	<u>(\$1,611,654) to could exceed (\$12,018,813)</u>
CONSERVATION COMMISSION FUND (0609)			
<u>Revenue Reduction</u> - Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$167,881) to could exceed <u>(\$1,251,960)</u>	(\$201,457) to could exceed <u>(\$1,502,352)</u>	(\$201,457) to could exceed <u>(\$1,502,352)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$167,881) to could exceed (\$1,251,960)</u>	<u>(\$201,457) to could exceed (\$1,502,352)</u>	<u>(\$201,457) to could exceed (\$1,502,352)</u>
PARKS AND SOILS STATE SALES TAX FUNDS (0613 & 0614)			
<u>Revenue Reduction</u> - Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$134,305) to could exceed <u>(\$1,001,568)</u>	(\$161,165) to could exceed <u>(\$1,201,881)</u>	(\$161,165) to could exceed <u>(\$1,201,881)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>(\$134,305) to could exceed (\$1,001,568)</u>	<u>(\$161,165) to could exceed (\$1,201,881)</u>	<u>(\$161,165) to could exceed (\$1,201,881)</u>

FISCAL IMPACT - Local Government

FY 2021
(10 Mo.)

FY 2022

FY 2023

\$0

\$0

\$0

FISCAL IMPACT - Small Business

Those who would qualify for the exemption under this proposed legislation could be impacted as they would no longer be required to remit the tax on such items, lowering their administrative costs.

FISCAL DESCRIPTION

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

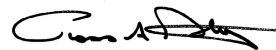
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget & Planning Division
Missouri Department of Revenue
University of Missouri's Economic & Policy Analysis Research Center
Missouri Department of Conservation
Missouri Department of Natural Resources



Julie Morff
Director
March 10, 2020



Ross Strope
Assistant Director
March 10, 2020