

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0750S.02I
Bill No.: SB 47
Subject: Taxation and Revenue - Sales and Use; Education, Elementary and Secondary; Cities, Towns and Villages
Type: Original
Date: January 26, 2021

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$0	\$0 or Up to \$123,697	\$0 or Up to \$164,929
Total Estimated Net Effect on General Revenue	\$0	\$0 or Up to \$123,697	\$0 or Up to \$164,929

*The potential fiscal impact to the General Revenue Fund is the 1% collection fee retained by the Department of Revenue on local sales taxes.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government		\$0 or Less than \$12,246,001	\$0 or Less than \$16,328,002

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration – Budget and Planning (B&P)** assume:

Section 67.1790 - The stated intent of this proposal is to allow voters whose voting jurisdictions meet the criteria described in section 1 to impose a sales tax up to 0.25% for the purpose of funding early childhood education. B&P defers to the Greene County local governments for the fiscal impact. DOR's retained collection fee will increase TSR because DOR will be able to collect its 1% administration fee for handling the collection of the tax.

Section 94.842 - This proposal allows voters in the City of Springfield to impose a transient guest tax up to 7.5% for the purpose of funding public safety for the city. Assuming that an agreement is entered into by the City of Springfield and the State of Missouri's Director of Revenue for the collection of the tax, DOR's retained collection fee will increase TSR because DOR will be able to collect its 1% administration fee for handling the collection of the tax. B&P defers to the City of Springfield for the fiscal impact and DOR on the collection fees.

Oversight notes the Officials from the B&P defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Officials from the **Department of Revenue (DOR)** assume:

Section 67.1790 Greene County Sales Tax

This proposed section states that the governing body of any county of the first classification with more than two hundred sixty thousand but fewer than three hundred thousand inhabitants (Greene County), or any city within such county, may impose by order or ordinance a sales tax on all retail sales made within the county or city that are subject to sales tax under Chapter 144 for the purpose of funding early childhood education programs in the county or city.

This proposed section states that the tax shall not exceed one quarter of one percent and shall be imposed solely for the purpose of funding early childhood education programs in the county or city.

This proposed section states that the order or ordinance imposing a sales tax under this section shall not become effective unless the governing body of the county or city submits to the voters residing within the county or city to impose a tax under this section.

This proposed section states that if a majority of the votes cast on the question by the qualified voters voting thereon are in favor of the question, the order or ordinance shall become effective

on the first day of the second calendar quarter after the Director of the Department of Revenue receives notice of the adoption of the tax.

This proposed section states that all revenue collected under this section by the Director of the Department of Revenue on behalf of any county or city, except for one percent for the cost of collection deposited in the state's general revenue fund, shall be deposited in a special trust fund, which is hereby created and shall be known as the Early Childhood Education Sales Tax Trust Fund.

This proposed section states that in order to permit sellers required to collect and report the sales tax to collect the amount required to be reported and remitted, but not change the requirements of reporting or remitting the tax, or to serve as a levy of the tax, and in order to avoid fractions of pennies, the governing body of the county or city may authorize the use of a bracket system similar to that authorized in Section 144.285 and this new bracket system shall be used where this tax is imposed and shall apply to all taxable transactions.

This proposal allows the Cities to enter into a contract to have the Department collect these taxes on their behalf. The Department estimates that General Revenue could increase by \$76,736 each fiscal year due to the one percent collection fee, which is to be deposited into the General Revenue Fund, allowable pursuant to this proposed legislation.

	Total Taxable Sales (Distribution * Tax Rate)	New Tax Rate (current tax with 0.25 added to it)	Difference Between Current and Proposed Collection	1% Fee Retained by DOR	Amount Deposited into Early Childhood Fund
Greene County	\$1,608,562,901	6.23%	\$4,021,407	\$40,214	\$3,981,193
Ash Grove	\$3,371,483	8.23%	\$8,429	\$84	\$8,344
Battlefield	\$5,415,601	7.73%	\$13,539	\$135	\$13,404
Fair Grove	\$4,799,681	8.48%	\$11,999	\$120	\$11,879
Republic	\$75,430,315	8.60%	\$188,576	\$1,886	\$186,690
Rogersville	\$11,572,982	8.48%	\$28,932	\$289	\$28,643
Springfield	\$1,337,734,433	7.60%	\$3,344,336	\$33,443	\$3,310,893
Strafford	\$9,296,078	7.73%	\$23,240	\$232	\$23,008
Walnut Grove	\$665,641	8.23%	\$1,664	\$17	\$1,647
Willard	\$12,600,310	8.23%	\$31,501	\$315	\$31,186
TOTAL				\$76,736	\$7,596,887

The Department has estimated the potential local impact should the county and all cities within the county approve a ballot measure approving this one quarter of one percent tax increase to the sales/use tax rate. These revenues would not be seen until two quarters after the ballot measure passed. If this legislation were passed and signed, the earliest a measure could be on the ballot is April 2022; and therefore the tax would start October 1, 2022 (FY 2023).

The Department used the appropriate distribution amounts for each county and city within the county which is published and provided in the Departments Fiscal Year 2019 Fiscal and Statistical Report (<https://dor.mo.gov/cafr/documents/financialstatreport19.pdf>). The Department took the distribution amount, divided that amount by ninety nine percent to add back in the one percent deposited into General Revenue for the cost of collection, to receive an estimated Total Sales/Use Tax collected by the localities. This amount was divided by the applicable sales/use tax rates of the county and each city within the county to provide an estimated Total Taxable Sales. The Total Taxable Sales were then multiplied by the proposed tax rates which included an additional one quarter of one percent tax. The new amount was multiplied by one percent to report the total estimated one percent collection fee from the increased revenues. The collection fee was removed from the estimated tax collected. The remaining estimated tax collected was then subtracted from the distribution amount(s) reported in the Fiscal and Statistical Report to report the estimated increase.

DOF notes that this proposal would become effective on August 28, 2021 (FY 2022) and the first election this issue could be presented to the voters would be the April 6, 2022 general election. The Department notes there is not a November election in 2021. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Fiscal Year	GR (DOF fee)	Early Childhood Fund
2022	\$0	\$0
2023	\$0 or \$57,552	\$0 or \$5,697,665
2024	\$0 or \$76,736	\$0 or \$7,596,887

Section 94.842 Springfield Transient Guest Tax

This provision allows the City of Springfield to establish a transient guest tax of up to 2.5% and allows them to contract with DOF to collect the tax on their behalf. This does **NOT** have an impact on DOF as transient guest taxes are collected by the local political subdivision and not DOF. Should the City want to enter into an agreement for DOF to collect this tax, DOF would be allowed to retain 1% to cover any administrative costs.

DOF assume that any administrative cost stemming from the proposal would be absorbed by the Department.

Oversight Assumption

Entity	Total Taxable Sales (Distribution * Tax Rate)	Total Taxable Sales (Distribution / Tax Rate of 1.75%)	New Tax Rate 0.25 % multiplied by Distribution	DOR 1% Collection Fee
Greene County	\$95,150,517	\$5,437,172,400.	\$13,592,931	\$135,929

FY	DOR Collection Fee	Max. Collection for Greene County
2022	\$0	\$0
2023 (9 months)	\$101,947	\$10,092,751
2024	\$135,929	\$13,457,002

Oversight used the total tax distribution for Greene County based on FY 2019 distribution, divided the amount by the appropriate county tax (1.75%) and multiplied by the proposed 1/4 % for a total of \$13,457,002 (\$13,592,931 - \$135,929 [DOR 1% collection fee]) in potential new sales tax collections. Oversight will reflect a maximum impact of sales tax revenue as if Greene County adopted the sales tax rate county-wide. The tax amount would be less if, instead of Greene County, municipalities within Greene County (i.e. Springfield, Willard, etc.) adopted the tax instead. Therefore, Oversight will range the impact from \$0 (not approved by voters) Up to \$13,157,002 (approved and implemented county-wide) on the fiscal note.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the Section 67.1790 is contingent upon the actions of voters (and subsequently the governing bodies of Greene County and the cities within) DESE assumes this proposal will have an impact on the revenues received into the "Early Childhood Education Sales Tax Trust Fund"; however, our department has no means to calculate the potential impact.

Officials from the **City of Springfield** assume a positive fiscal impact from this bill, if voters approve such a tax. If such a tax is approved by voters, the estimated revenue, based on pre-COVID-19 hotel/motel receipts, would be \$2.9 million annually.

Oversight Assumption – Springfield Transient Guest Tax

Section 94.842 states that governing body may impose tax on the charges for all sleeping rooms paid by the transient guest of hotels or motels situated in the city. Additionally, it is a tax on total receipt in addition to current 5% hotel/motel license tax and "such tax shall be used solely for capital improvement that can be demonstrated to increase the number of overnight visitors".

Officials from City of Springfield noted the current 5% hotel/motel tax is a different tax, compared to the current proposal, designated to further promote tourism “by developing Civic Park (which is now Jordan Valley Park) constructing an indoor ice facility and making capital grants available for projects to assist not-for-profit organizations who promote these activities.”

Explanation of the Hotel / Motel license tax and Transient tax in example:

Room Rate	\$50.00
Sales Tax (8.1%)	\$4.05
Total both	\$54.05
5% paid to the City / pass on to customer	\$2.84
Total Gross Receipt / charge to customer	\$56.89
Actual Hotel Tax (5%)	\$2.84 / \$54.05 = .0526 actual tax

Room Rate	\$50.00
Sales Tax (8.1%)	\$4.05
Total both	\$54.05
Transient Tax @ 2.5\$	\$1.25
Total Gross Receipt / charge to customer	\$55.30
Hotel License Tax Passed On to customer @ 5%	\$2.91

City receives the Transient Guest Tax equal to \$1.25 (2.5% of the room rate). In addition, the city will get the hotel motel license tax, as it is currently permitted to collect equal to \$2.84. However, as a result of the gross receipts increasing because of the additional Transient Guest Tax, the city will recognize additional revenue of \$0.07 (per 50 dollar room charge) – an increase in the real Hotel / Motel tax equal approximately **.116%** ($\$2.91 / \$56.89 = 5.116\%$). It should be noted, though, that for the hotels or motels that pass the license tax on the customer, the customer’s real tax rate increases.

CY	Hotel Motel Fees Collected	sales divided by .05526	2.5% transient tax collection
2015	\$4,723,156.53	\$89,793,850.38	
2016	\$5,024,039.54	\$95,514,059.70	
2017	\$5,309,898.32	\$100,948,637.26	
2018	\$5,799,088.78	\$110,248,836.12	
2019	\$5,758,819.98	\$109,483,269.58	\$2,737,081.74
Average	\$5,323,000.63	\$101,197,730.61	\$2,529,943.27

Oversight notes that this proposal would become effective on August 28, 2021 (FY 2022) and the first election this issue could be presented to the voters would be the April 6, 2022 general election. Oversight notes there is not a November election in 2021. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Oversight assume the City of Springfield's proposed transient tax could generate approximately \$2,153,250 for the city in FY 2023 and \$2,871,000 thereafter. Additionally, the City of Springfield would receive additional revenues from recognition of increase in total receipt to calculate Hotel / Motel license tax under city ordinance. As a voter-approved tax, the collected revenues will not impact General and Total State Revenues; however, assuming the city and DOR enter into an agreement for DOR to collect the taxes, DOR will retain 1% to offset collection costs. Therefore, this portion could increase General and Total State Revenues by approximately \$21,750 in FY 2023 and \$29,000 thereafter (assuming the Hotel/Motel revenues remain constant in future years). Therefore, the Oversight will range the impact from \$0 (voters will not approve transient guest tax increase) or Could Exceed \$2.871 million (voters will approve transient guest tax) to Local Government funds.

FY	DOR 1%	Springfield Transient Guest Tax
2022	\$0	\$0
2023	\$21,750	\$2,153,250
2024	\$29,000	\$2,871,000

Officials from the **Office of the State Treasurer and Joint Committee on Administrative Rules** both assume the proposal would not have direct fiscal impact on their organization.

Officials from the **Office of the Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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 2022	FY 2023	FY 2024
GENERAL REVENUE			
Revenue DOR collection fee	\$0	<u>\$0 or Up to \$123,697</u>	<u>\$0 or Up to \$164,929</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0 or Up to \$123,697</u>	<u>\$0 or Up to \$164,929</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
GREENE COUNTY			
Revenue Gain – Section 67.1790 – Greene County Childhood Education Sales Tax (.25% p. 4)	\$0	<u>\$0 or Up to \$10,194,698</u>	<u>\$0 or Up to \$13,592,931</u>
DOR 1% Collection Fee	\$0	<u>\$0 or Up to (\$101,947)</u>	<u>\$0 or Up to (\$135,929)</u>
ESTIMATED NET EFFECT ON THE CITY OF GREENE COUNTY	<u>\$0</u>	<u>\$0 or Up to \$10,092,751</u>	<u>\$0 or Up to \$13,457,002</u>

<u>FISCAL IMPACT – Local Government (continued)</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
CITY OF SPRINGFIELD			
Revenue Gain – 94.842 – City of Springfield Transient Guest Tax (2.5% p.6,7)	\$0	\$0 or \$2,175,000	\$0 or \$2,900,000
DOR 1% Collection Fees	\$0	\$0 or (\$21,750)	\$0 or (\$29,000)
Total Revenue Gain – 94.842 – City of Springfield Transient Guest Tax (2.5% p.6,7)l	\$0	<u>\$0 or \$2,153,250</u>	<u>\$0 or \$2,871,000</u>
Revenue Gain – Increase to City of Springfield's Hotel – Motel License Tax Total (p.7 receipt tax)	\$0	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON THE CITY OF SPRINGFIELD			
	\$0	\$0 or Could Exceed 2,153,250	\$0 or Could Exceed 2,871,000
NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS			
	\$0	\$0 or Less than \$12,246,001	\$0 or Less than \$16,328,002

FISCAL IMPACT – Small Business

Small businesses in Greene County that pay and/or collect sales taxes or transient guest taxes would be impacted by this proposal.

FISCAL DESCRIPTION

EARLY CHILDHOOD SALES TAX

This act allows Greene County and any city within the county to impose a sales tax, upon approval of a majority of the voters, not to exceed one-fourth of one percent for the purpose of funding early childhood education in the county or city. The vote shall occur on a general election day. (Section 67.1790)

TRANSIENT GUEST TAXES

This act authorizes the City of Springfield to submit to the voters a transient guest tax not to exceed 2.5% of the charges per occupied room per night. Such tax shall be used solely for capital improvements that can be demonstrated to increase the number of overnight visitors.

Upon approval by the voters, the city may adopt rules and regulations for the internal collection of the tax, or may enter into an agreement with the Department of Revenue for the collection of the tax. The vote shall occur on a general election day. (Section 94.842)

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

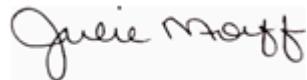
Office of Administration – Budget & Planning

Department of Revenue

Joint Committee on Administrative Rules

Office of the State Treasurer

City of Springfield



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