

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0970S.01I  
 Bill No.: SB 246  
 Subject: Taxation and Revenue - Sales and Use  
 Type: Original  
 Date: March 22, 2021

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

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	(\$4,035,701) to could exceed (\$22,704,235)	(\$4,842,841) to could exceed (\$27,245,082)	(\$4,842,841) to could exceed (\$27,245,082)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$4,035,701) to could exceed (\$22,704,235)</b>	<b>(\$4,842,841) to could exceed (\$27,245,082)</b>	<b>(\$4,842,841) to could exceed (\$27,245,082)</b>

**\*Oversight notes the estimated decrease to GR (and to other state funds) 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.**

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
School District Trust (0688)	(\$1,345,233) to could exceed (\$7,568,078)	(\$1,614,280) to could exceed (\$9,081,694)	(\$1,614,280) to could exceed (\$9,081,694)
Conservation Commission (0609)	(\$168,154) to could exceed (\$946,010)	(\$201,785) to could exceed (\$1,135,212)	(\$201,785) to could exceed (\$1,135,212)
Parks, Soils, and Water State Sales Tax Fund (0613 & 0614)	(\$134,523) to could exceed (\$756,808)	(\$161,428) to could exceed (\$908,169)	(\$161,428) to could exceed (\$908,169)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$1,648,910) to could exceed (\$9,270,896)</b>	<b>(\$1,977,493) to could exceed (\$11,125,075)</b>	<b>(\$1,977,493) to could exceed (\$11,125,075)</b>

Numbers within parentheses: () indicate costs or losses.

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

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

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration – B&P** note the 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.

DOR reports taxable sales in 2019 from various electrical utility related industries as shown within **Table 1 Exhibit**.

Based on this information, B&P estimates that this proposal could reduce TSR by \$6,820,334 (\$161,428,019 x 4.225%) and GR by \$4,842,841 (\$161,428,019 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 BEA Input-Output Use Tables<sup>1</sup>. According to the Input-Output Use Tables, inputs from commodities that might qualify under these exemptions are roughly 20.3% of the total output of the “utilities” industry. In addition, DOR reports that taxable sales of electric related utilities in 2019 were about \$4,477,153,392. This suggests that this proposal might exempt \$908,169,411 in taxable sales from taxation.

B&P estimates that this would reduce TSR by \$38,370,157 (\$908,169,411 [Table 2. Exhibit] x 4.225%) and GR by \$27,245,082 (\$908,169,411 x 3.0%) annually. B&P notes, however, that 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 (**Table 3. Exhibit**) that this proposal could reduce TSR by \$6,820,334 to \$38,370,157 annually and GR by \$4,842,841 to \$27,245,082 once fully implemented in FY23.

### **Table 1: Lower Bound Estimates**

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<sup>1</sup> [http://www.bea.gov/industry/io\\_annual.htm](http://www.bea.gov/industry/io_annual.htm)

Tax Type	SIC	NAICS	Description	CY 2019	Percent
Use	491, 493	221111	HYDROELECTRIC POWER GENERATION	\$56,251,134	100%
Use	491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$0	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	\$9,377,590	100%
Use	491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$31,453,929	100%
Use	493	221210	NATURAL GAS DISTRIBUTION	\$16,898,253	100%
Sales	364	332216	Saw Blade and Handtool Manufacturing	\$1,132,057	100%
Sales	369	333318	Other Commercial and Service Industry Machinery Manufacturing	\$0	60%
Sales	369	333992	Welding and Soldering Equipment Manufacturing	\$0	60%
Sales	364	335110	Electric Lamp Bulb and Part Manufacturing	\$0	100%
Sales	364	335121	Residential Electric Lighting Fixture Manufacturing	\$1,454,882	100%
Sales	364	335122	Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing	\$0	100%
Sales	364, 369	335129	Other Lighting Equipment Manufacturing	\$0	60%
Sales	361	335311	Power, Distribution, and Specialty Transformer Manufacturing	\$11,980,556	100%
Sales	362	335312	Motor and Generator Manufacturing	\$1,344,384	100%
Sales	361	335313	Switchgear and Switchboard Apparatus Manufacturing	\$0	100%
Sales	362	335314	RELAY AND INDUSTRIAL CONTROL MANUFACTURING	\$88,062	100%
Sales	364	335931	Current-Carrying Wiring Device Manufacturing	\$1,701,919	100%
Sales	364	335932	Noncurrent-Carrying Wiring Device Manufacturing	\$0	100%
Sales	362	335991	Carbon and Graphite Product Manufacturing	\$0	100%
Sales	362, 369	335999	All Other Miscellaneous Electrical Equipment and Component	\$29,745,251	100%
Total				<b>\$161,428,017</b>	

**Table 2: Upper Bound Estimates**

SIC	NAICS	Description	CY 2019
491, 493	221111	HYDROELECTRIC POWER GENERATION	\$1,710,216,679
491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$36,744,870
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
491, 493	221118	Other Electric Power Generation	\$0
491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$25,521,921
491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$2,146,250,441
492, 493	221210	NATURAL GAS DISTRIBUTION	\$558,419,481
492	486210	PIPELINE TRANSPORTATION OF NATURAL GAS	\$0
Total Sales			\$4,477,153,392
BEA Input / Output Adjustment			20.30%
Total Exempt Sales			<b>\$908,169,411</b>

**Table 3. State Impact by Fund**

Fund	FY 2022		FY 2023	
	Low	High	Low	High
GR	(\$4,035,701)	(\$22,704,235)	(\$4,842,841)	(\$27,245,082)
Education	(\$1,345,233)	(\$7,568,078)	(\$1,614,280)	(\$9,081,694)
Conservation	(\$168,154)	(\$946,010)	(\$201,785)	(\$1,135,212)
DNR	(\$134,523)	(\$756,808)	(\$161,428)	(\$908,169)
TSR Impact	(\$5,683,611)	(\$31,975,131)	(\$6,820,334)	(\$38,370,157)

Officials from the **Department of Revenue (DOR)** assume the 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 and use tax database the following amount of sales and use tax was collected in CY 2019 (the most recent complete year of data).

**Table 1. Taxable Sales collection CY 2019**

<b>NAICS Code</b>	<b>NAICS</b>	<b>Tax Type</b>	<b>% of Tax that Qualifies for Exemption</b>	<b>Year Total</b>
221111	HYDROELECTRIC POWER GENERATION	Use Tax	100%	\$56,251,134.32
221112	FOSSIL FUEL ELECTRIC POWER GENERATION	Use Tax	100%	\$0.00
221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	Use Tax	100%	\$9,377,590.10
221122	ELECTRIC POWER DISTRIBUTION	Use Tax	100%	\$31,453,929.25
221210	NATURAL GAS DISTRIBUTION	Use Tax	100%	\$16,898,252.79
332216	SAW BLADE AND HANDTOOL MANUFACTURING	Sales Tax	100%	\$1,132,057.18
333318	OTHER COMMERCIAL AND SERVICE INDUSTRY MACHINERY MANUFACTURING	Sales Tax	60%	\$0.00
333992	WELDING AND SOLDERING EQUIPMENT MANUFACTURING	Sales Tax	60%	\$0.00
335121	RESIDENTIAL ELECTRIC LIGHTING FIXTURE MANUFACTURING	Sales Tax	100%	\$1,454,881.75
335122	COMMERCIAL, INDUSTRIAL, AND INSTITUTIONAL ELECTRIC LIGHTING FIXTURE MANUFACTURING	Sales Tax	100%	\$0.00
335129	OTHER LIGHTING EQUIPMENT MANUFACTURING	Sales Tax	60%	\$0.00
335311	POWER, DISTRIBUTION, AND SPECIALTY TRANSFORMER MANUFACTURING	Sales Tax	100%	\$11,980,556.41

335312	MOTOR AND GENERATOR MANUFACTURING	Sales Tax	100%	\$1,344,384.39
335313	SWITCHGEAR AND SWITCHBOARD APPARATUS MANUFACTURING	Sales Tax	100%	\$0.00
335314	RELAY AND INDUSTRIAL CONTROL MANUFACTURING	Sales Tax	100%	\$88,061.66
335931	CURRENT-CARRYING WIRING DEVICE MANUFACTURING	Sales Tax	100%	\$1,701,919.46
335932	NONCURRENT-CARRYING WIRING DEVICE MANUFACTURING	Sales Tax	100%	\$0.00
335999	ALL OTHER MISCELLANEOUS ELECTRICAL EQUIPMENT AND COMPONENT MANUFACTURING	Sales Tax	100%	\$29,745,251.21
	<b>TOTAL SALES</b>			<b>\$161,428,018</b>

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%

Parks, Soil & Water Funds .1%

DOR notes that this proposal may stop the tax currently given to General Revenue 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, 2021 (FY 2022) and therefore only 10 months would be collected in FY 2022.

**Table 2: FY estimates for all funds**

	FY 2022 (10 months)	FY 2023	FY 2024
General Revenue	(\$4,035,700.46)	(\$4,842,840.56)	(\$4,842,840.56)
School District	(\$1,345,233.49)	(\$1,614,280.19)	(\$1,614,280.19)
Conservation	(\$168,154.19)	(\$201,785.02)	(\$201,785.02)
Park, Soil & Water	(\$134,523.35)	(\$161,428.02)	(\$161,428.02)

Officials from the **Department of Natural Resources (DNR)** assume 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.

The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. 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.

Officials from the **Missouri Department of Conservation (MDC)** assume the proposal would have an unknown negative 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. 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 **Economic & Policy Analysis Research Center (EPARC)** assume the proposal 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 we estimate the annual operating cost (less employee wages and compensation) for all electrical producers in the State of Missouri to be \$3,374,411,344. However, since EPARC do not know to what extent these operating costs are already tax exempt our agency must treat 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.

<b>Fund</b>	<b>Sales Tax Rate</b>	<b>Decrease in Revenue</b>
General Revenue	3.0000%	\$ 101,232,340
School District Trust	1.0000%	\$ 33,744,113
Conservation commission	0.1250%	\$ 4,218,014
Parks, Soil, and Water	0.1000%	\$ 3,374,411
<b>Total</b>	<b>4.2250%</b>	<b>\$ 142,568,879</b>

Officials from the EPARC estimate the sales tax exemption for items used in the production or transmission of electricity to customers will reduce Net General Revenue by \$101.232 million, reduce the School District Trust Fund by \$33.744 million, reduce the Conservation fund by \$4.218 million, and reduce the Parks, Soil and Water fund by \$3.374 million.

**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 –</u> <u>State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>GENERAL REVENUE FUND</b>			
<u>Revenue Reduction -</u> Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$4,035,700) to could exceed <u>(\$22,704,235)</u>	(\$4,842,841) to could exceed <u>(\$27,245,082)</u>	(\$4,842,841) to could exceed <u>(\$27,245,082)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b>(\$4,035,700) to could exceed <u>(\$22,704,235)</u></b>	<b>(\$4,842,841) to could exceed <u>(\$27,245,082)</u></b>	<b>(\$4,842,841) to could exceed <u>(\$27,245,082)</u></b>
<b>SCHOOL DISTRICT TRUST FUND (0688)</b>			
<u>Revenue Reduction -</u> Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$1,345,233) to could exceed <u>(\$7,568,078)</u>	(\$1,614,280) to could exceed <u>(\$9,081,694)</u>	(\$1,614,280) to could exceed <u>(\$9,081,694)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b>(\$1,345,233) to could exceed <u>(\$7,568,078)</u></b>	<b>(\$1,614,280) to could exceed <u>(\$9,081,694)</u></b>	<b>(\$1,614,280) to could exceed <u>(\$9,081,694)</u></b>

<u>FISCAL IMPACT –</u> <u>State Government</u> (continued)	FY 2022 (10 Mo.)	FY 2023	FY 2024
<b>CONSERVATION COMMISSION FUND (0609)</b>			
<u>Revenue Reduction -</u> Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$168,154) to could exceed <u>(\$946,010)</u>	(\$201,785) to could exceed <u>(\$1,135,212)</u>	(\$201,785) to could exceed <u>(\$1,135,212)</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b>(\$168,154) to could exceed <u>(\$946,010)</u></b>	<b>(\$201,785) to could exceed <u>(\$1,135,212)</u></b>	<b>(\$201,785) to could exceed <u>(\$1,135,212)</u></b>
<b>PARKS AND SOILS STATE SALES TAX FUNDS (0613 &amp; 0614)</b>			
<u>Revenue Reduction -</u> Section 144.058 - Sales/Use Tax exemption for production of electricity	(\$134,523) to could exceed <u>(\$756,808)</u>	(\$161,428) to could exceed <u>(\$908,169)</u>	(\$161,428) to could exceed <u>(\$908,169)</u>
<b>ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS</b>	<b>(\$134,523) to could exceed <u>(\$756,808)</u></b>	<b>(\$161,428) to could exceed <u>(\$908,169)</u></b>	<b>(\$161,428) to could exceed <u>(\$908,169)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

The businesses 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.

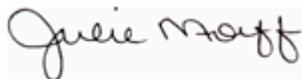
FISCAL DESCRIPTION

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  
Department of Revenue  
Missouri Department of Conservation  
Department of Natural Resources  
Economic & Policy Analysis Research Center



Julie Morff  
Director  
March 22, 2021



Ross Strobe  
Assistant Director  
March 22, 2021