

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3488S.04C
 Bill No.: SCS for HCS for HB 1462
 Subject: Crimes and Punishment; Law Enforcement Officers and Agencies; Firearms;
 Taxation and Revenue - Sales and Use
 Type: Original
 Date: April 21, 2022

Bill Summary: This proposal modifies provisions relating to firearms.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	(\$9,547,388- \$35,955,000)	(\$11,456,865- \$43,146,000)	(\$11,456,865- \$43,146,000)
Total Estimated Net Effect on General Revenue	(\$9,547,388- \$35,955,000)	(\$11,456,865- \$43,146,000)	(\$11,456,865- \$43,146,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
School District Trust Fund	(\$3,182,463- \$11,985,000)	(\$3,818,955- \$14,382,000)	(\$3,818,955- \$14,382,000)
Conservation Fund	(\$397,808- \$1,498,125)	(\$477,369- \$1,797,750)	(\$477,369- \$1,797,750)
Park, Soil, and Water Fund	(\$318,246- \$1,198,500)	(\$381,896- \$1,438,200)	(\$381,896- \$1,438,200)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$3,898,517 - \$14,681,625)	(\$4,678,220 - \$17,617,950)	(\$4,678,220 - \$17,617,950)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 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.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	(\$12,825,324-\$48,299,550)	(\$15,390,389-\$57,959,460)	(\$15,390,389-\$57,959,460)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal will impact the calculation under Article X, Section 18(e).

§144.064 - Firearm & Ammunition Sales Tax Exemption

Officials from the **Department of Revenue (DOR)** note this proposal would grant a state and local sales tax exemption for firearms sold in this state. The current sales tax rate on firearms

and ammunition is 4.225%. This would remove the tax on these purchases starting August 28, 2022 the effective date of this proposal.

DOR notes the current state sales tax is	4.225%:
General Revenue is	3%
School District Trust Fund	1%
Conservation Commission	0.125%
Parks, Soil & Water Funds	0.1%
Total	4.225%

The state uses a 4.03% weighted average for the local sales tax.

DOR looked into the price of various firearms. They found that no single source maintains data on the amount of firearms that are sold annually. They found that prices varied on the different types of firearms:

- Rifles \$500 - \$10,000
- Shotguns \$400 - \$2,000
- Handguns \$250 - \$2,500
- Revolvers \$200 - \$1,500

The FBI background check report for Missouri in 2021 showed 634,191 background checks were completed; but does not record the price of a firearm. The Department used a \$500 cost for a firearm to estimate the impact of this proposal.

DOR determined this would be a loss to the state and locals of approximately \$26,176,234.

DOR notes this proposal becomes effective August 28, 2022. For the simplicity of the fiscal note, they will show an impact of 10 months in FY 2023. The lost revenue would be distributed among the funds as follows:

Firearms	FY 2023 (10 months)	FY 2024	FY 2025
General Revenue	(\$7,927,388)	(\$9,512,865)	(\$9,512,865)
School District	(\$2,642,463)	(\$3,170,955)	(\$3,170,955)
Conservation	(\$330,308)	(\$396,369)	(\$396,369)
Park Soil	(\$264,246)	(\$317,096)	(\$317,096)
Locals	(\$10,649,124)	(\$12,778,949)	(\$12,778,949)

DOR was unable to find information on the amount of ammunition sold in Missouri. However, the National Shooting Sports Foundation estimates at least 12 billion rounds of ammunition are manufactured in the United States annually. Given that Missouri's population is 1.8% of the

total population, DOR assumes that as much as 216,000,000 rounds of ammunition are sold in Missouri annually.

Just like the firearms that vary in price based on the size of the weapon, so does the ammunition. The current price is anywhere from \$15 to \$60 per box, with anywhere from 20 rounds to 50 rounds per box. Assuming all the ammunition in Missouri were sold as 50 rounds per box it would result in 4.32 million boxes of ammunition being sold. At the minimum price of \$15 per box, this would result in taxable sales of \$64,800,000. At the state sales tax rate of 4.225% this proposal would result in a loss of \$2,737,800 in state sales tax and another \$2,611,440 in local sales tax being exempt. Using this information DOR assumes a loss of:

Ammunition	tax rate	FY 2023 (10 months)	FY 2024+
General Revenue	0.03	(\$1,620,000)	(\$1,944,000)
School District	0.01	(\$540,000)	(\$648,000)
Conservation	0.00125	(\$67,500)	(\$81,000)
Park Soil	0.001	(\$54,000)	(\$64,800)
Locals	0.0403	(\$2,176,200)	(\$2,611,440)

The Bureau of Economic Analysis maintains records on the amount of sporting equipment, supplies, guns and ammunition that are sold annually. However, these items are lumped together and not segregated for just firearms or ammunition. According to their July 1, 2020, report there was \$79.9 billion in goods sold in this category. Since Missouri is 1.8% of the population, they could assume that \$1,438,200,000 of that category is sold here.

Sporting Goods	FY 2023 (10 months)	FY 2024
General Revenue	(\$35,955,000)	(\$43,146,000)
School District	(\$11,985,000)	(\$14,382,000)
Conservation	(\$1,498,125)	(\$1,797,750)
Park Soil	(\$1,198,500)	(\$1,438,200)
Locals	(\$48,299,550)	(\$57,959,460)

For the purpose of the fiscal note, DOR will range the impact from the firearms and ammunition combined amount (low range) to the sporting goods amount (high range).

	FY 2023 (10 months)		FY 2024	
	Low	High	Low	High
General Revenue	(\$9,547,388)	(\$35,955,000)	(\$11,456,865)	(\$43,146,000)
School District	(\$3,182,463)	(\$11,985,000)	(\$3,818,955)	(\$14,382,000)
Conservation	(\$397,808)	(\$1,498,125)	(\$477,369)	(\$1,797,750)
Park Soil	(\$318,246)	(\$1,198,500)	(\$381,896)	(\$1,438,200)
Locals	(\$12,825,324)	(\$48,299,550)	(\$15,390,389)	(\$57,959,460)

DOR Administrative Impact

DOR notes this proposal will require updates to the sales tax system of \$3,596. This proposal has the potential to increase the number of refund requests. DOR will need one (1) Associate Customer Service Representative for every increase of 1,100 refund requests. At this time, DOR believes they can absorb the impact, however, should DOR get enough refunds claims to justify new FTE, they will seek them through the appropriations process.

Oversight assumes the **Department of Revenue** is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the FTE and system upgrade costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process. Officials from the DOR assume the proposal will have no fiscal impact on their organization.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt the sales of firearms and ammunition from state and local sales taxes beginning August 28, 2022.

Firearms

For the purpose of this fiscal note, B&P will use the number of FBI background checks to estimate the number of guns purchases per year. B&P notes that not every background check will result in the purchase of a firearm and some background checks will result in the purchase of multiple firearms.

Based on data published by the FBI, the average number of background checks was 592,972 for 2019-2021. Based on research, B&P determined that the average price of a firearm is \$650. Therefore, B&P estimates that this provision will exempt approximately \$385,431,800 (592,972 x \$650) in taxable sales from state and local sales taxes.

Ammunition

Based on price research, B&P estimates that the average price of ammunition for the following types of firearms:

- Handguns - \$0.45 per round
- Rifles - \$2.00 per round
- Shotguns - \$1.07 per round
- Specialty guns (antiques) - \$1.18 per round

Based on further research, B&P found that the average gun owner also purchases the following amounts of ammunition rounds:

- Handguns – 500 to 1,500 rounds
- Rifles – 500 to 2,000 rounds
- Shotguns – 250 to 1,000 rounds
- Specialty guns (antiques) – 50 to 250 rounds

Therefore, B&P estimates that the average gun owner spends the following amount on ammunition:

- Handguns - \$225 to \$675
- Rifles - \$1,000 to \$4,000
- Shotguns - \$268 to \$1,070
- Specialty guns (antiques) - \$59 to \$295

B&P notes that based on additional data, 74% of ammunition purchases are made for handguns.

Using the FBI background data (discussed above), B&P estimates that this provision could exempt \$189,620,586 to \$660,452,241 in taxable sales from state and local sales taxes. B&P notes that this estimate only includes ammunitions purchases for new guns and does not include additional purchases for firearms that were bought in previous years.

Summary

Once fully implemented in FY24, B&P estimates that this provision could reduce TSR by \$24,295,963 to \$44,188,599 and GR by \$17,251,572 to \$31,376,520. Using the population weighted sales tax rate of 4.03% for 2021, B&P estimates that this provision may reduce local sales tax collections by \$23,174,611 to \$42,149,126 once fully implemented in FY24.

Table 1: Impact by Fund

State Funds	FY23		FY24	
	Low	High	Low	High
General Revenue	(\$14,376,310)	(\$26,147,100)	(\$17,251,572)	(\$31,376,520)
Education (SDTF)	(\$4,792,103)	(\$8,715,700)	(\$5,750,524)	(\$10,458,840)
Conservation	(\$599,013)	(\$1,089,463)	(\$718,815)	(\$1,307,355)
DNR	(\$479,210)	(\$871,570)	(\$575,052)	(\$1,045,884)
Total State Loss	(\$20,246,636)	(\$36,823,833)	(\$24,295,963)	(\$44,188,599)
Local Funds				
Local Sales Tax	(\$19,312,176)	(\$35,124,272)	(\$23,174,611)	(\$42,149,126)

Oversight will show B&P’s and DOR’s lowest and highest projected fiscal estimates to show the maximum low and high impact of this proposal.

Officials from the **Missouri Department of Conservation** note this proposal would have an unknown fiscal impact but greater than \$250,000. 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 change in sales and use tax collected would affect 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. 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 that 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, thus MDC’s sales taxes are constitutional mandates. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for MDC’s funds.

Officials from the **City of O’Fallon** note if approved, this bill would cost the city between \$200,000 and \$225,000 in future sales tax revenue; based upon plans to construct two large gun shops (Range USA and Frontier Justice) in O’Fallon in the coming year. Each store is expected to average at least \$5,000,000 in annual sales. O’Fallon city officials estimate the lost revenue totaling \$200,000 - \$225,000 is very conservative, as it does not take into account any gun and ammo sales from existing O’Fallon retailers. O’Fallon city officials state the above estimates would be accurate for CY 2023 and all years forward.

Officials from the **City of Kansas City** note this proposal could have a negative fiscal impact on Kansas City in an indeterminate amount.

Oversight notes the above local subdivision stated this proposal would have a negative fiscal impact. Oversight will note B&P and DOR's estimates for all local political subdivisions on the fiscal note.

In response to similar legislation from 2022 (SB 1102), SEQ CHAPTER \h \r l officials from the **City of Claycomo** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this City.

§571.031 – Blair's Law

Officials from the **Office of the State Public Defender (SPD)** state the proposed legislation creates new criminal offenses under Section 571.031, Section 577.703 and Section 577.712; which could increase the number of persons who are eligible for representation by the State Public Defender (SPD). The fiscal impact of this legislation on the SPD is unknown as the number of additional cases eligible for representation as the result of the legislation is unknown, but it is anticipated that the impact would be under \$250,000.

Oversight notes in FY22 the SPD was appropriated moneys for 53 additional FTE. Oversight assumes this proposal will create a minimal number of new cases and that the SPD can absorb the additional caseload required by this proposal with current staff and resources. Therefore, Oversight will reflect no fiscal impact to the SPD for fiscal note purposes. However, if multiple bills pass which require additional staffing and duties, the SPD may request funding through the appropriation process.

Officials from the **Missouri Office of Prosecution Services (MOPS)** assume the proposal will have no measurable fiscal impact on MOPS. The enactment of a new crime (571.031.4) creates additional responsibilities for county prosecutors and the circuit attorney which may, in turn, result in additional costs, which are difficult to determine.

In response to similar legislation from 2022 (HB 1568), officials from the **City of St. Louis** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this section.

In response to a previous version (HCS HB 1462), officials from the **Office of the State Courts Administrator**, the **El Dorado Springs Police Department**, the **Springfield Police Department**, and **Greene County** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

§§571.101 and 571.205 – Concealed carry permits

In response to similar legislation from 2022 (HB 1833), officials from the **Office of the State Courts Administrator** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these sections.

§571.101 – Lowers age requirement for concealed carry permits

Oversight notes this bill lowers the age requirement from nineteen to eighteen for a concealed carry permit, which may increase the number of CCW applications submitted to county sheriffs. Oversight assumes any increase in revenue to sheriff's departments will be offset by an increase in cost to process the applications for CCW permits. Therefore, the impact to local governments-sheriff's departments will be presented as netting to \$0 for this section.

Responses regarding the proposed legislation as a whole

Officials from the **Attorney General's Office**, the **Department of Corrections**, the **Department of Public Safety – (Missouri Highway Patrol and Missouri National Guard)**, the **Missouri Department of Transportation**, the **City of Springfield**, the **Kansas City Police Department**, the **St. Louis County Police Department**, and the **Phelps County Sheriff's Department** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a previous version, officials from the **Department of Elementary and Secondary Education** and the **St. Joseph Police Department** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities, counties, and local law enforcement were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
<u>Revenue Reduction</u> - §144.064 sales tax exemption of firearms and ammunition p. 3-7	(\$9,547,388- \$35,955,000)	(\$11,456,865- \$43,146,000)	(\$11,456,865- \$43,146,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$9,547,388- \$35,955,000)	(\$11,456,865- \$43,146,000)	(\$11,456,865- \$43,146,000)
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.064 sales tax exemption of firearms and ammunition p. 3-7	(\$3,182,463- \$11,985,000)	(\$3,818,955- \$14,382,000)	(\$3,818,955- \$14,382,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(\$3,182,463- \$11,985,000)	(\$3,818,955- \$14,382,000)	(\$3,818,955- \$14,382,000)
CONSERVATION TRUST FUND			
<u>Decline in sales tax revenues</u> - §144.064 sales tax exemption of firearms and ammunition p. 3-7	(\$397,808- \$1,498,125)	(\$477,369- \$1,797,750)	(\$477,369- \$1,797,750)
ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND	(\$397,808- \$1,498,125)	(\$477,369- \$1,797,750)	(\$477,369- \$1,797,750)
PARK, SOIL, & WATER FUND			
<u>Revenue Reduction</u> - §144.064 sales tax exemption of firearms and ammunition p. 3-7	(\$318,246- \$1,198,500)	(\$381,896- \$1,438,200)	(\$381,896- \$1,438,200)
ESTIMATED NET EFFECT ON PARK, SOIL, & WATER FUND	(\$318,246- \$1,198,500)	(\$381,896- \$1,438,200)	(\$381,896- \$1,438,200)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue</u> – Sheriff’s Departments (\$571.101) Increase in CCW applications p. 9	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Revenue Reduction</u> - §144.064 sales tax exemption of firearms and ammunition p. 3-7	(\$12,825,324- \$48,299,550)	(\$15,390,389- \$57,959,460)	(\$15,390,389- \$57,959,460)
<u>Cost</u> – Increase in costs to process CCW applications p. 9	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(\$12,825,324- \$48,299,550)	(\$15,390,389- \$57,959,460)	(\$15,390,389- \$57,959,460)

FISCAL IMPACT – Small Business

Small businesses that purchase or sell firearms or ammunition could be impacted by this proposal.

FISCAL DESCRIPTION

FIREARM AND AMMUNITION SALES TAX EXEMPTION (Section 144.064)

Beginning August 28, 2022, this act provides that all sales of firearms and ammunition made in this state shall be exempt from state and local sales taxes.

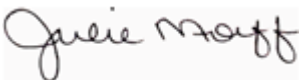
CONCEALED CARRY PERMITS (Section 571.101)

This bill lowers the age requirement from at least 19 to 18 years of age or older for a concealed carry permit.

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

Attorney General's Office
Department of Corrections
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Public Safety
Department of Revenue
Missouri Department of Conservation
Missouri Department of Transportation
Missouri Office of Prosecution Services
Office of Administration - Budget and Planning
Office of the State Courts Administrator
Office of the State Public Defender
City of Claycomo
City of Kansas City
City of O'Fallon
City of Sikeston
City of Springfield
City of St. Louis
Kansas City Police Department
El Dorado Springs Police Department
Springfield Police Department
St. Joseph Police Department
St. Louis County Police Department
Phelps County Sheriff's Department
Greene County



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