

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4571S.01I
 Bill No.: SB 967
 Subject: Taxation and Revenue - Sales and Use; Motor Vehicles
 Type: Original
 Date: February 28, 2022

Bill Summary: This proposal requires motor vehicle dealers to collect and remit sales taxes on sales of motor vehicles.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue	(Unknown)	(Unknown)	(Unknown)

*Per DOR, this proposal is dependent upon the implementation of an integrated system, for which funding has already been identified and is not included in this fiscal note.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Conservation Commission Fund**	Up to (\$135,605)	Up to (\$271,209)	Up to (\$271,209)
Parks, Soils and Water Fund**	Up to (\$108,484)	Up to (\$216,968)	Up to (\$216,968)
School District Trust Fund**	Up to (\$542,418)	Up to (\$1,084,836)	Up to (\$1,084,836)
State Road Bond Fund**	Up to (\$1,627,255)	Up to (\$3,254,509)	Up to (\$3,254,509)
State Road Fund**	Up to (\$1,627,255)	Up to (\$3,254,509)	Up to (\$3,254,509)
Total Estimated Net Effect on Other State Funds	Up to (\$4,041,017)	Up to (\$8,082,031)	Up to (\$8,082,031)

**Amounts depend on the number of dealerships that choose to collect and remit sales tax (and retain the 2% timely filed discount). Current law allows (may) motor vehicle dealers to collect and remit sales taxes (dealers already have this ability). This proposal requires motor vehicle dealers to apply for that authority to collect and remit sales tax. This may increase the amount of sales taxes collected by dealers, and correspondingly, the amount of 2% discounts retained by dealers.

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	Up to (\$542,418)	Up to (\$1,084,837)	Up to (\$1,084,837)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume the following regarding this proposal:

§144.070.10 – Requires all motor vehicle dealers licensed under §301.560 selling motor vehicles or trailers to apply with the Department for the authority to collect and remit sales tax on all motor vehicle sold by the motor vehicle dealer beginning January 1, 2023.

Per §144.020.1, “A tax is hereby levied and imposed for the privilege of titling new and used motor vehicles, trailers, boats and outboard motors...”; therefore, dealers would be required to title motor vehicles in addition to collecting and remitting the sales tax for those motor vehicles sold.

However, §32.087.13 states “Local sales taxes shall not be imposed on the seller of motor vehicles, trailers, boats, and outboard motors required to be titled under the laws of the state of Missouri, but shall be collected from the purchaser by the director of revenue at the time application is made for a certificate of title,...”. Therefore, Missouri dealers would not be able to collect the local sales tax due nor apply for a certificate of title at the time of sale. The dealer would only be allowed to collect the state sales tax due and would not be allowed to retain the two percent of local sales tax due pursuant to §144.140.

The Compliance and Investigations Bureau/Audits and Investigations would be largely impacted as well. If dealers are collecting and remitting sales tax, a larger burden would be placed on the Compliance and Investigations Bureau/Audits Investigations due to the large number of entities involved in the collection of state sales tax.

If changes are made to §32.087.13 allowing dealers to collect the local sales tax at the time of sale, the new integrated system would be required at a cost of \$105 million. This new system, in conjunction with dealers collecting sales tax, could result in an increase in sales tax collection which could mitigate the system costs to some extent.

Administrative Impact

The administrative impact is unknown at this time. Changes would be required in §32.087.13 prior to determining this impact.

Oversight assumes necessary changes will be made; therefore, Oversight will reflect an “Unknown” cost to DOR for the administration of the new provisions.

Revenue Impact

The true impact of this proposed legislation cannot be determined because the Department does not know when or if the integrated Motor Vehicle and Driver License System will be implemented. However, the following estimates have been made using data from FY 2021 state sales tax collected on motor vehicles if the 2% timely discount is allowed for dealers that remit sales tax.

Total amount of state sales tax collected for motor vehicles in FY 2021 = \$458,343,397

Estimated loss of revenue annually = \$9,166,868 ($\$458,343,397 \times 2\%$)

	FY 2023 (6 months)	FY 2024	FY 2025
Conservation	(\$135,605)	(\$271,209)	(\$271,209)
Parks, Soils & Water	(\$108,484)	(\$216,968)	(\$216,968)
School District Trust Fund	(\$542,418)	(\$1,084,836)	(\$1,084,836)
State Road Bond Fund	(\$1,627,255)	(\$3,254,509)	(\$3,254,509)
State Road Fund	(\$1,627,255)	(\$3,254,509)	(\$3,254,509)
Locals	(\$542,418)	(\$1,084,837)	(\$1,084,837)
Total	(\$4,583,435)	(\$9,166,868)	(\$9,166,868)

MV/DL Integrated System

The cost associated with the Departments Motor Vehicle and Drivers Licensing system update and integration is \$105 million. While a funding source is currently in place, it is unknown if sufficient revenue will be secured from this funding source for the complete system integration. If the Department does not receive sufficient funding for this system integration project, additional funding will be requested through the appropriations process.

Oversight does not have information to the contrary and therefore, Oversight will reflect the revenue loss estimate as provided by the DOR. Oversight will not reflect the cost of a new integrated system for DOR as the department indicated a funding source is currently in place.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the following regarding this proposal:

Section 144.070

This proposal would require motor vehicle dealers to apply for authority to collect and remit sales taxes beginning January 1, 2023, rather than applying the sales tax to the purchaser at the time of titling a vehicle.

B&P notes that this proposal only requires dealers to “apply for authority to collect and remit”; it does not require dealerships to actually collect and remit such sales tax. Therefore, some dealerships may apply for authority, as required, but may choose to not collect and remit the sales tax. In which case the sales tax would still have to be applied at the time of titling.

B&P notes that motor vehicle dealers would be eligible for the 2% timely filing discount under Section 144.140. Therefore, B&P estimates that this provision may reduce revenues to state and local taxing jurisdictions.

B&P also notes that the 3% tax on motor vehicles is deposited into the State Road Bond Fund (50%); the State Road Fund (36.5%); the State Transportation Fund (1%); and the Fuel Local Deposit Fund (FLOYD)(12.5%) which is then distributed to local jurisdictions. In addition to the 3% general tax, a tax of 1% is levied for education, 0.125% for Conservation, and 0.1% for Parks, Soil and water.

In FY 2021, state 3% MV sales tax collections were \$322,932,631. Based on the 3% amount, B&P estimates that total taxable sales were \$13,313,245,960. Therefore, B&P estimates that granting the 2% timely filing discount to MV dealers would reduce state tax collections by up to \$9,918,368 (includes state sales tax minus FLOYD distributions) annually. In addition, B&P estimates that this would reduce local sales tax collections by up to \$12,061,801 (includes both local sales tax plus FLOYD distributions annually).

Table 1 shows the impact by fiscal year by impacted fund. B&P notes that the estimated impact is “up to” the amounts shown as not all MV businesses may choose to actually collect and remit the sales tax and not all businesses may qualify for the timely filing discount throughout a full fiscal year.

Table 1: Impact by Fund and Fiscal Year

		FY23		FY24		FY25
<u>State Funds</u>						
Education	Up to	(\$1,109,438)	Up to	(\$1,331,325)	Up to	(\$1,331,325)
Conservation	Up to	(\$277,359)	Up to	(\$332,831)	Up to	(\$332,831)
DNR	Up to	(\$221,887)	Up to	(\$266,265)	Up to	(\$266,265)
State Road Bond Fund	Up to	(\$3,328,311)	Up to	(\$3,993,974)	Up to	(\$3,993,974)
State Road Fund	Up to	(\$3,239,557)	Up to	(\$3,887,468)	Up to	(\$3,887,468)
State Transportation Fund	Up to	(\$88,755)	Up to	(\$106,505)	Up to	(\$106,505)
Loss to All State Funds	Up to	(\$8,265,307)	Up to	(\$9,918,368)	Up to	(\$9,918,368)
<u>Local Funds</u>						
Fuel Local Deposit (FLOYD)	-		-		-	
Sales Tax	Up to	(\$1,109,437)	Up to	(\$1,331,324)	Up to	(\$1,331,324)
	Up to	(\$8,942,064)	Up to	(\$10,730,476)	Up to	(\$10,730,476)
Loss to All Local Funds	Up to	(\$10,051,501)	Up to	(\$12,061,801)	Up to	(\$12,061,801)

For fiscal note purposes, **Oversight** will utilize the estimates provided by DOR. Oversight will reflect the loss estimate as “Up to...” as not all dealerships would collect the sales tax and therefore, receive the 2% timely discount.

Officials from the **Missouri Highway Patrol** assume 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 the Missouri Highway Patrol.

Officials from the **Missouri Department of Transportation** defer to the DOR for the potential fiscal impact of this proposal.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Cost – DOR – implementation of new provisions (p. 3-4)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>FISCAL IMPACT – State Government (continued)</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
CONSERVATION COMMISSION FUND (0609)			
<u>Loss – 2% timely fee possibly being retained by dealerships (p. 4-5)</u>	Up to <u>(\$135,605)</u>	Up to <u>(\$271,209)</u>	Up to <u>(\$271,209)</u>
ESTIMATED NET EFFECT ON THE CONSERVATION COMMISSION FUND	<u>Up to (\$135,605)</u>	<u>Up to (\$271,209)</u>	<u>Up to (\$271,209)</u>
PARKS, SOIL AND WATER FUND (0613 & 0614)			
<u>Loss – 2% timely fee possibly being retained by dealerships (p. 4-5)</u>	Up to <u>(\$108,484)</u>	Up to <u>(\$216,968)</u>	Up to <u>(\$216,968)</u>
ESTIMATED NET EFFECT ON THE PARKS, SOIL AND WATER FUND	<u>Up to (\$108,484)</u>	<u>Up to (\$216,968)</u>	<u>Up to (\$216,968)</u>
SCHOOL DISTRICT TRUST FUND (0688)			
<u>Loss – 2% timely fee possibly being retained by dealerships (p.4)</u>	Up to <u>(\$542,418)</u>	Up to <u>(\$1,084,836)</u>	Up to <u>(\$1,084,836)</u>

ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT TRUST FUND	Up to <u>(\$542,418)</u>	Up to <u>(\$1,084,836)</u>	Up to <u>(\$1,084,836)</u>
STATE ROAD BOND FUND (0319)			
<u>Loss – 2% timely fee possibly being retained by dealerships (p.4-5)</u>	Up to <u>(\$1,627,255)</u>	Up to <u>(\$3,254,509)</u>	Up to <u>(\$3,254,509)</u>
ESTIMATED NET EFFECT ON THE STATE ROAD BOND FUND	Up to <u>(\$1,627,255)</u>	Up to <u>(\$3,254,509)</u>	Up to <u>(\$3,254,509)</u>
<u>FISCAL IMPACT – State Government (continued)</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
STATE ROAD FUND (0320)			
<u>Loss – 2% timely fee possibly being retained by dealerships (p. 4-5)</u>	Up to <u>(\$1,627,255)</u>	Up to <u>(\$3,254,509)</u>	Up to <u>(\$3,254,509)</u>
ESTIMATED NET EFFECT ON THE STATE ROAD FUND	Up to <u>(\$1,627,255)</u>	Up to <u>(\$3,254,509)</u>	Up to <u>(\$3,254,509)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss – 2% timely fee possibly being retained by dealerships (p.4)</u>	Up to <u>(\$542,418)</u>	Up to <u>(\$1,084,837)</u>	Up to <u>(\$1,084,837)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	Up to <u>(\$542,418)</u>	Up to <u>(\$1,084,837)</u>	Up to <u>(\$1,084,837)</u>

FISCAL IMPACT – Small Business

Small dealerships could be impacted as a result of this proposal.

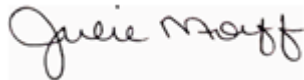
FISCAL DESCRIPTION

Current law allows motor vehicle dealers to apply to the Department of Revenue to collect and remit sales tax on motor vehicles sold by such dealer. Beginning January 1, 2023, this act requires all motor vehicle dealers to apply to collect and remit sales tax on motor vehicles sold by such dealer.

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

Department of Revenue
Office of Administration - Budget and Planning
Missouri Highway Patrol
Missouri Department of Transportation



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February 28, 2022



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