

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5465S.01I  
Bill No.: SB 1124  
Subject: Taxation And Revenue - Sales And Use  
Type: Original  
Date: February 14, 2022

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Bill Summary: This proposal authorizes a sales tax exemption for the purchase of diapers.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
General Revenue	(\$16,876,377 - \$28,266,538)	(\$20,251,653 - \$33,919,845)	(\$20,251,653 - \$33,919,845)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$16,876,377 - \$28,266,538)</b>	<b>(\$20,251,653 - \$33,919,845)</b>	<b>(\$20,251,653 - \$33,919,845)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
School District Trust Fund (0688)	(\$5,625,459 – \$9,422,179)	(\$6,750,551 - \$11,306,615)	(\$6,750,551 - \$11,306,615)
Conservation Commission Fund (0609)	(\$703,183 - \$1,177,772)	(\$843,819 - \$1,413,327)	(\$843,819 - \$1,413,327)
Parks and Soils State Sales Tax Funds (0613 & 0614)	(\$562,546 - \$942,218)	(\$675,055 - \$1,130,662)	(\$675,055 – \$1,130,662)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$6,891,188 - \$11,542,169)</b>	<b>(\$8,269,425 - \$13,850,604)</b>	<b>(\$8,269,425 - \$13,850,604)</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</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 2023</b>	<b>FY 2024</b>	<b>FY 2025</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 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
<b>Local Government</b>	<b>(\$22,670,600 - \$37,971,383)</b>	<b>(\$27,204,720 - \$45,565,659)</b>	<b>(\$27,204,720 - \$45,565,659)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 144.030.2(1)**

Officials from the **Department of Revenue (DOR)** note this section modifies the Missouri pesticide registration act to include the additional statutory references. This will not fiscally impact DOR.

#### **Section 144.030.2(18)**

Officials from the DOR note this section removes reference to certain federal statutes. This appears to be clean up language. This will not fiscally impact DOR.

#### **Section 144.030.2(25)**

Officials from the DOR note this section removes the sectional reference 4091, which was repealed by Congress. This will not fiscally impact DOR.

#### **Section 144.030.2(46)**

Officials from the DOR note this section removes the state and local sales tax on diapers, including both diapers worn by children as well as adults. The current state sales tax rate of is 4.225%. DOR used a 4.03% weighted average local tax rate. The current state tax rate is distributed as:

General Revenue is	3.000%	
School District Trust Fund is	1.000%	(Section 144.701)
Conservation Commission Fund is	0.125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds	0.100%	(Article IV, Section 47(a))

#### Kids Diapers

The DOR notes that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from \$0.20 per diaper for generics to \$0.42 for name brand. Prices of diapers also depend on the size of the diaper. Estimates by various children's organizations indicate that an infant in the first year of life goes through 2,500 diapers. The next two years as toddlers, they go through 1,500 diapers annually.

Wearing Diaper	How Many	Low Price per Diaper	High Price per Diaper
First Year (Size 1)	2,500	0.20	0.27
Second Year (Size 3)	1,500	0.30	0.41
Third Year (Size 5)	1,500	0.32	0.42

Based on the Department of Health and Senior Services, the average number of resident births from 2017-2019 was 72,800. Given that 3 years' worth of children are wearing diapers in any one year, (1 set of infants and 2 sets of toddlers) DOR estimates the following:

Births Annually	72,800
# of kids in Diapers Annually	218,400
# of Diapers Annually	
infant	182,000,000
toddler (2yrs)	218,400,000
total (kids * diapers)	400,400,000

DOR notes this proposal would result in a loss to the state and locals of the following.

Diapers Taxable Sales		\$104,104,000	\$139,776,000
	Tax Rate	Full Year - Low	Full Year - High
TSR	0.04225	\$4,398,394	\$5,905,536
GR	0.03	\$3,123,120	\$4,193,280
Education	0.01	\$1,041,040	\$1,397,760
DNR	0.001	\$104,104	\$139,776
Conservation	0.00125	\$130,130	\$174,720
		\$0	\$0
Locals	0.0403	\$4,195,391	\$5,632,973

DOR assumes this proposal would become effective August 28, 2022. Therefore, there will be two months of tax collected in FY 2023 before the products become exempt. DOR will show 10 months of impact in FY 2023.

	FY 2023 (10 months) Low	FY 2023 High	FY 2024 Low	FY 2024 High
General Revenue	(\$2,602,600)	(\$3,494,400)	(\$3,123,120)	(\$4,193,280)
Education	(\$867,533)	(\$1,164,800)	(\$1,041,040)	(\$1,397,760)
Park, Soil & Water	(\$86,753)	(\$116,480)	(\$104,104)	(\$139,776)
Conservation	(\$108,442)	(\$145,600)	(\$130,130)	(\$174,720)
Locals	(\$3,496,159)	(\$4,694,144)	(\$4,195,391)	(\$5,632,973)

### Adult Diapers

Approximately one third of adults age 65 and older have moderate to severe urinary incontinence and 6 percent had moderate to severe bowel incontinence. According to the United States Census Bureau 2019 population report, 1,057,943 individuals residing in Missouri were 65 or over. The Department notes that it is estimated that people with minor to moderate incontinence wear approximately 4 diapers per day while those with full urinary or fecal incontinence wear 6 diapers per day. The Department estimates that approximately 285,645 individuals aged 65 and over would utilize the four adult urinary incontinence diapers while 63,477 would wear 6 adult diapers daily.

The average cost for urinary incontinence diapers is \$1.31 per diaper.

Number of people	# of Diapers	Days per year	Total Diapers per person	Price per diaper	Total Sales
285,645	4	365	1460	1.31	\$546,324,627
63,477	6	365	2190	1.31	\$182,109,166
					\$728,433,793

This is expected to result in a loss to General Revenue and locals.

Diapers Taxable Sales	\$728,433,793	
	Tax Rate	Full Year
TSR	0.04225	\$30,776,248
GR	0.03	\$21,852,955
Education	0.01	\$7,284,318
DNR	0.001	\$728,432
Conservation	0.00125	\$910,540
Locals	0.0403	\$29,355,803

DOR assumes this proposal would become effective August 28, 2022. Therefore, there will be two months of tax collected in FY 2023 before the products become exempt. DOR will show 10 months of impact in FY 2023.

	FY 2023 (10 months)	FY 2024
General Revenue	(\$18,210,796)	(\$21,852,955)
Education	(\$6,070,265)	(\$7,284,318)
Park, Soil & Water	(\$607,027)	(\$728,432)
Conservation	(\$758,783)	(\$866,458)
Locals	(\$24,463,169)	(\$29,355,803)

DOR does not expect this proposal to have an administrative impact on the Department.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt all sales of diapers from sales tax beginning August 28, 2022.

#### **Diaper (Child) Sales Tax Reduction**

Based on research, B&P found that the average amount spent on diapers was \$550 to \$840 per year. Based on information from the University of Michigan Hospital, the average age until children are toilet trained is 2.5 years. Based on information provided by the United State Census 2019 population estimates (the most recent complete year available), there were approximately 217,232 children living in Missouri ages 0-2 years old.

Therefore, B&P estimates total sales of \$119,477,600 (217,232 children x \$550) up to \$182,474,880 (217,232 children x \$840) may be become exempt from sales tax by this proposal. B&P estimates that this provision could reduce TSR by \$5,047,929 to \$7,709,564 annually. Using the population weighted average sales tax rate of 4.03% for 2021, B&P further estimates that this provision could reduce local sales tax collections by \$4,814,947 to \$7,353,738 annually.

#### **Diaper (Adult) Sales Tax Reduction**

According to research completed by the CDC, approximately 25% of adults age 65 and up had moderate to severe urinary incontinence and 8% had moderate to severe bowel incontinence. B&P notes that according the United State Census 2019 population (the most recent complete year available) estimates there were approximately 1,062,037 individuals residing in Missouri age 65 and over.

Based on these numbers, B&P estimates that approximately 265,509 individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 84,963 individuals residing in Missouri age 65 and over would utilize adult bowel incontinence diapers.

Based on information from a budgeting website, the average cost for urinary incontinence diapers is \$160 to \$240 per month, for a yearly cost of \$1,920 to \$2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is \$60 to \$180 per month, for a yearly cost of \$720 to \$2,160.

B&P estimates that total annual sales for urinary incontinence adult diapers would be approximately \$509,777,760 (265,509 people x \$1,920 annual cost) up to \$764,666,640 (265,509 people x \$2,880 annual cost).

B&P further estimates that the total annual sales for bowel incontinence adult diapers would be \$61,173,331 (84,963 people x \$720 annual cost) up to \$183,519,994 (84,963 people x \$2,160 annual cost).

Therefore, B&P estimates total sales of \$570,951,091 (\$509,777,760 + \$61,173,331) up to \$948,186,634 (\$764,666,640 + \$183,519,994) may be become exempt from sales tax by this proposal. B&P estimates that this provision could reduce TSR by \$24,122,684 to \$40,060,885 annually. Using the population weighted average sales tax rate of 4.03% for 2021, B&P further estimates that this provision could reduce local sales tax collections by \$23,009,329 to \$38,211,921 annually.

### **Summary**

B&P estimates that this proposal may reduce TSR by \$24,308,844 to \$39,808,707 during FY23. Once fully implemented in FY24, this proposal may reduce TSR by \$29,170,612 to \$47,770,449 annually. Table 1 shows the estimated impact by provision and fund.

Table 1: Loss by Provision and Fund

<b><u>State Fund</u></b>	FY23		FY24	
General Revenue				
Diapers - Child	(2,986,940)	(4,561,872)	(3,584,328)	(5,474,246)
Diapers - Adult	(14,273,777)	(23,704,666)	(17,128,533)	(28,445,599)
<b>Total GR Loss</b>	<b>(17,260,717)</b>	<b>(28,266,538)</b>	<b>(20,712,861)</b>	<b>(33,919,845)</b>
Education				
Diapers - Child	(995,647)	(1,520,624)	(1,194,776)	(1,824,749)
Diapers - Adult	(4,757,926)	(7,901,555)	(5,709,511)	(9,481,866)
<b>Total Education Loss</b>	<b>(5,753,572)</b>	<b>(9,422,179)</b>	<b>(6,904,287)</b>	<b>(11,306,615)</b>
Conservation				
Diapers - Child	(124,456)	(190,078)	(149,347)	(228,094)
Diapers - Adult	(594,741)	(987,694)	(713,689)	(1,185,233)
<b>Total Conservation Loss</b>	<b>(719,197)</b>	<b>(1,177,772)</b>	<b>(863,036)</b>	<b>(1,413,327)</b>
DNR				
Diapers - Child	(99,565)	(152,062)	(119,478)	(182,475)
Diapers - Adult	(475,793)	(790,156)	(570,951)	(948,187)
<b>Total DNR Loss</b>	<b>(575,357)</b>	<b>(942,218)</b>	<b>(690,429)</b>	<b>(1,130,662)</b>
<b>Total TSR Loss</b>	<b>(24,308,844)</b>	<b>(39,808,707)</b>	<b>(29,170,612)</b>	<b>(47,770,449)</b>
<b><u>Local Funds</u></b>				
Diapers - Child	(4,012,456)	(6,128,115)	(4,814,947)	(7,353,738)



Diapers - Adult	(19,174,441)	(31,843,268)	(23,009,329)	(38,211,921)
<b>Total Local Loss</b>	<b>(23,186,897)</b>	<b>(37,971,382)</b>	<b>(27,824,276)</b>	<b>(45,565,659)</b>

**Oversight** notes that both DOR and B&P both assume this proposal will have a negative fiscal impact on state and local funds. Therefore, Oversight will show B&P's and DOR's lowest and highest projected fiscal estimates to show the maximum range of impact from this proposal.

Officials from the **Missouri Department of Conservation** state this proposal will 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 increase in sales and use tax collected would increase 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 Kansas City** state this legislation may have a negative fiscal impact on Kansas City in an indeterminate amount.

Officials from the **City of O'Fallon** estimate it would cost the city around \$45,018 per year due to an exemption of local sales tax rate of \$0.02.

**Oversight** notes the above local political subdivisions stated this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount. Therefore, Oversight will note B&P and DOR's estimates for local political subdivisions on the fiscal note.

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

Officials from the **Department of Social Services** and the **City of Claycomo** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

[illegible]

<u>FISCAL IMPACT – State Government (continued)</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>CONSERVATION COMMISSION FUND (0609)</b>			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers p. 3-8	(\$108,442 - \$190,078)	(\$130,130 - \$228,094)	(\$130,130 - \$228,094)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers p. 3-8	(\$594,741 – \$987,694)	(\$713,689 - \$1,185,233)	(\$713,689 - \$1,185,233)
<b>ESTIAMTED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b>(\$703,183 – <u>\$1,177,772</u>)</b>	<b>(\$843,819 - <u>\$1,413,327</u>)</b>	<b>(\$843,819 - <u>\$1,413,327</u>)</b>
<b>PARKS AND SOILS STATE SALES TAX FUND(S) (0613 &amp; 0614)</b>			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers p. 3-8	(\$86,753 -\$152,062)	(\$104,104 - \$182,475)	(\$104,104 - \$182,475)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers p. 3-8	(\$475,793 -\$790,156)	(\$570,951 - \$948,187)	(\$570,951 - \$948,187)
<b>ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUND(S)</b>	<b>(\$562,546 -<u>\$942,218</u>)</b>	<b>(\$675,055 - <u>\$1,130,662</u>)</b>	<b>(\$675,055 - <u>\$1,130,662</u>)</b>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
<b>LOCAL GOVERNMENT</b>			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers p. 3-8	(\$3,496,159 - \$6,128,115)	(\$4,195,391 - \$7,353,738)	(\$4,195,391 - \$7,353,738)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers p. 3-8	(\$19,174,441 - \$31,843,268)	(\$23,009,329 - \$38,211,921)	(\$23,009,329 - \$38,211,921)
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENT</b>	<b>(\$22,670,600 - \$37,971,383)</b>	<b>(\$27,204,720 - \$45,565,659)</b>	<b>(\$27,204,720 - \$45,565,659)</b>

#### FISCAL IMPACT – Small Business

Small businesses that sell diapers will be impacted by this proposal.

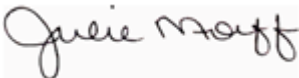
#### FISCAL DESCRIPTION

This act authorizes a sales tax exemption for the purchase of diapers, as defined in the act.

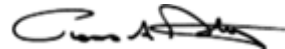
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration - Budget and Planning  
Missouri Department of Conservation  
Department of Social Services  
Department of Natural Resources  
City of Kansas City  
City of Claycomo  
City of O'Fallon



Julie Morff  
Director  
February 14, 2022



Ross Strobe  
Assistant Director  
February 14, 2022