

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0311S.01I
 Bill No.: SB 184
 Subject: Taxation and Revenue - Sales and Use
 Type: Original
 Date: January 3, 2023

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	(\$11,980,254 to \$29,970,410)	(\$14,376,304 to \$35,964,492)	(\$14,376,304 to \$35,964,492)
Total Estimated Net Effect on General Revenue	(\$11,980,254 to \$29,970,410)	(\$14,376,304 to \$35,964,492)	(\$14,376,304 to \$35,964,492)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
School District Trust Fund (0688)	(\$3,993,418 to \$9,990,137)	(\$4,792,102 to \$11,988,164)	(\$4,792,102 to \$11,988,164)
Parks and Soils State Sales Tax Fund(S) (0613 & 0614)	(\$399,341 to \$999,013)	(\$497,000 to \$1,201,062)	(\$497,000 to \$1,201,062)
Conservation Commission Fund (0609)	(\$497,530 to \$1,248,767)	(\$597,036 to \$1,498,521)	(\$597,036 to \$1,498,521)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$4,890,289 to \$12,237,917)	(\$5,886,138 to \$14,687,747)	(\$5,886,138 to \$14,687,747)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Local Government	(\$18,482,514 to \$40,659,855)	(\$22,179,016 to \$48,791,827)	(\$22,179,016 to \$48,791,827)

FISCAL ANALYSIS

ASSUMPTION

Section 144.030 Sales Tax Exemption for Diapers

Officials from the **Department of Revenue (DOR)** state beginning August 28, 2023, the tax levied and imposed under Chapter 144 (Section 144.030.2(47)) on all retail sales of kid’s diapers and adult diapers shall be exempt from taxation. This exemption extends to the local sales tax rate as well as the state sales tax rate. The current state sales tax rate is 4.225%. DOR used a 4.07% weighted average local tax rate. The current state tax rate is distributed as:

General Revenue is	3%	
School District Trust Fund is	1%	(Section 144.701)
Conservation Commission Fund is	.125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds	.1%	(Article IV, Section 47(a))

Kid Diapers

The Department notes that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from \$0.16 per diaper for generics to \$0.60 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	Total Cost Low	Total Cost High
First Year (Size 1)	2,500	0.16	0.31	400	775
Second Year (Size 3)	1,500	0.18	0.38	270	570
Third Year (Size 5)	1,500	0.29	0.60	435	900

Based on the Department of Health and Senior Services, the average number of resident births from 2018-2020 was 71,554. 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	71,554
# of kids in Diapers Annually	214,662
# of Diapers Annually	
infant	178,885,000
toddler (2yrs)	214,662,000
total (kids * diapers)	393,547,000

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

State Funds	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	(\$1,976,679)	(\$4,015,968)	(\$2,372,015)	(\$4,819,162)
School Districts	(\$658,893)	(\$1,338,656)	(\$790,672)	(\$1,606,387)

Conservation	(\$80,714)	(\$163,985)	(\$96,857)	(\$196,782)
Park, Soil & Water	(\$65,889)	(\$133,866)	(\$79,067)	(\$160,639)
Local Funds	(\$2,681,695)	(\$5,448,330)	(\$3,218,034)	(\$6,537,996)

Adult Diapers

Approximately one third of adults age 65 and older have moderate to severe urinary incontinence and 6 percent had moderate to severe bowl incontinence. According the United State Census Bureau 2020 population report, 1,033,384 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 those with full urinary or fecal incontinence wear 6 diapers per day. The Department estimates that approximately 341,017 individuals aged 65 and over would utilize the four adult urinary incontinence diapers while 62,003 would wear 6 adult diapers daily.

The average cost for urinary incontinence diapers is \$1.33 per diaper.

Number of people	# of Diapers	Days per year	Total Diapers per person	Price per diaper	Total Sales
279,014	4	365	1460	1.33	541,788,764
62,003	6	365	2190	1.33	180,596,255
					722,385,018

DOR notes since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

State Funds	FY 2024 (10 months)	FY 2025+
General Revenue	(\$18,059,625)	(\$21,671,551)
School Districts	(\$6,019,875)	(\$7,223,850)
Conservation	(\$752,484)	(\$902,981)
Park, Soil & Water	(\$601,988)	(\$722,385)
Local Funds	(\$24,500,892)	(\$29,401,070)

Summary

DOR notes this proposal would require one time computer programming changes and form changes. This is estimated to cost \$7,193.

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 computer programming 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.

DOR estimates the proposal will reduce state and local revenues by the following:

State Funds	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	(\$20,036,305)	(\$22,075,594)	(\$24,043,566)	(\$26,490,712)
School Districts	(\$6,678,768)	(\$7,358,531)	(\$8,014,522)	(\$8,830,237)
Conservation	(\$833,199)	(\$916,470)	(\$999,839)	(\$1,099,764)
Park, Soil & Water	(\$667,877)	(\$735,853)	(\$801,452)	(\$883,024)
Local Funds	(\$27,182,587)	(\$29,949,222)	(\$32,619,104)	(\$35,939,067)

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal would exempt all sales of diapers from sales tax beginning August 28, 2023.

Diaper (Child) Sales Tax Exemption

Based on research, B&P found that the average amount spent on diapers was \$1,000 during the first year and then \$500 to \$900 per year until toilet trained. 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 2020 population estimates (the most recent complete year available), there were approximately 217,943 children living in Missouri ages 0-2 years old, with 71,649 being less than one year old.

Therefore, B&P estimates total sales of \$144,796,000 [(71,649 x \$1,000) + (146,294 children x \$500)] up to \$194,535,960 [(71,649 x \$1,000) + (146,294 children x \$900)] may be impacted by this proposal. B&P estimates that this provision could reduce TSR by \$6,117,631 to \$8,219,144 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by \$5,893,197 to \$7,917,614 annually.

Diaper (Adult) Sales Tax Exemption

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 to the United State Census 2020 population (the most recent complete year available) estimates there were approximately 1,089,714 individuals residing in Missouri age 65 and over.

Based on these numbers, B&P estimates that approximately 272,429 (1,089,714 x 25%) individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 87,177 (1,089,714 x 8%) 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 \$100 to \$240 per month, for a yearly cost of \$1,200 to \$2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is \$70 to \$210 per month, for a yearly cost of \$840 to \$2,520.

B&P estimates that total annual sales for urinary incontinence adult diapers would be approximately \$326,914,200 (272,429 people x \$1,200 annual cost) up to \$784,594,080 (272,429 people x \$2,880 annual cost).

B&P further estimates that the total annual sales for bowel incontinence adult diapers would be \$73,228,781 (87,177 people x \$840 annual cost) up to \$219,686,342 (87,177 people x \$2,520 annual cost).

Therefore, B&P estimates total sales of \$400,142,981 (\$326,914,200 + \$73,228,781) up to \$1,004,280,422 (\$784,594,080 + \$219,686,342) may be impacted by this proposal. B&P estimates that this provision could reduce TSR by \$16,906,041 to \$42,430,848 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by \$16,285,819 to \$40,874,213 annually.

Summary

B&P estimates that this proposal may reduce TSR by \$19,186,393 to \$42,208,327 during FY24. Once fully implemented in FY25, this proposal may reduce TSR by \$23,023,672 to \$50,649,992 annually. In addition, this proposal could reduce local sales taxes by \$22,179,017 to \$48,791,827 annually. Table 1 shows the estimated impact by provision and fund.

State Fund	FY24		FY25+	
General Revenue				
Diapers - Child	(3,619,900)	(4,863,399)	(4,343,880)	(5,836,079)
Diapers - Adult	(10,003,575)	(25,107,011)	(12,004,289)	(30,128,413)
Total GR Loss	(13,623,475)	(29,970,410)	(16,348,169)	(35,964,491)
Education				
Diapers - Child	(1,206,633)	(1,621,133)	(1,447,960)	(1,945,360)
Diapers - Adult	(3,334,525)	(8,369,004)	(4,001,430)	(10,042,804)
Total Education Loss	(4,541,158)	(9,990,137)	(5,449,390)	(11,988,164)
Conservation				
Diapers - Child	(150,829)	(202,642)	(180,995)	(243,170)
Diapers - Adult	(416,816)	(1,046,125)	(500,179)	(1,255,351)
Total Conservation Loss	(567,645)	(1,248,767)	(681,174)	(1,498,520)
DNR				
Diapers - Child	(120,663)	(162,113)	(144,796)	(194,536)
Diapers - Adult	(333,452)	(836,900)	(400,143)	(1,004,280)
Total DNR Loss	(454,116)	(999,014)	(544,939)	(1,198,816)
Total TSR Loss	(19,186,393)	(42,208,327)	(23,023,672)	(50,649,992)
Local Funds				
Diapers - Child	(4,910,998)	(6,598,011)	(5,893,197)	(7,917,614)
Diapers - Adult	(13,571,516)	(34,061,844)	(16,285,819)	(40,874,213)
Total Local Loss	(18,482,514)	(40,659,856)	(22,179,017)	(48,791,827)

Officials from the **Missouri Department of Conservation** assume this proposal would have an unknown fiscal impact. 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. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes the Conservation sales funds are derived from the one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) thus MDC's sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption of diapers will reduce the sales tax revenue distributed to the Conservation fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for MDC's funds.

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

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption of diapers will reduce the sales tax revenue distributed to the Conservation funds. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for MDC's funds.

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

Officials from the **City of Kansas City** and the **City of Springfield** each assume this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount.

Oversight notes the above local political subdivision stated this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount. Oversight notes the proposed sales tax exemption of diapers would reduce sales tax revenue to all local political subdivisions. Therefore, Oversight will note B&P and DOR's estimates for all local political subdivisions on the fiscal note.

Officials from the **Department of Social Services** 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 this agency.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the MOLIS database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Revenue Reduction - §144.030 - Exemption on child diapers p. 3-8</u>	(\$1,976,679 to \$4,863,399)	(\$2,372,015 to \$5,836,079)	(\$2,372,015 to \$5,836,079)
<u>Revenue Reduction - §144.030 - Exemption on adult diapers p. 3-8</u>	(\$10,003,575 to \$25,107,011)	(\$12,004,289 to \$30,128,413)	(\$12,004,289 to \$30,128,413)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$11,980,254 to \$29,970,410)</u>	<u>(\$14,376,304 to \$35,964,492)</u>	<u>(\$14,376,304 to \$35,964,492)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction - §144.030 - Exemption on child diapers p. 3-8</u>	(\$658,893 to \$1,621,133)	(\$790,672 to \$1,945,360)	(\$790,672 to \$1,945,360)
<u>Revenue Reduction - §144.030 - Exemption on adult diapers p. 3-8</u>	(\$3,334,525 to \$8,369,004)	(\$4,001,430 to \$10,042,804)	(\$4,001,430 to \$10,042,804)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$3,993,418 to \$9,990,137)</u>	<u>(\$4,792,102 to \$11,988,164)</u>	<u>(\$4,792,102 to \$11,988,164)</u>
PARKS AND SOILS STATE SALES TAX FUNDS			
<u>Revenue Reduction - §144.030 - Exemption on child diapers p. 3-8</u>	(\$65,889 to \$162,113)	(\$96,857 to \$196,782)	(\$96,857 to \$196,782)
<u>Revenue Reduction - §144.030 - Exemption on adult diapers p. 3-8</u>	(\$333,452 to \$836,900)	(\$400,143 to \$1,004,280)	(\$400,143 to \$1,004,280)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>(\$399,341 to \$999,013)</u>	<u>(\$497,000 to \$1,201,062)</u>	<u>(\$497,000 to \$1,201,062)</u>

<u>FISCAL IMPACT – State Government</u> <u>(continued)</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers p. 3-8	(\$80,714 to \$202,642)	(\$96,857 to \$243,170)	(\$96,857 to \$243,170)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers p. 3-8	(\$416,816 to \$1,046,125)	(\$500,179 to \$1,255,351)	(\$500,179 to \$1,255,351)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$497,530 to \$1,248,767)</u>	<u>(\$597,036 to \$1,498,521)</u>	<u>(\$597,036 to \$1,498,521)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL GOVERNMENT			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on diapers p. 3-8	(\$18,482,514 to \$40,659,855)	(\$22,179,016 to \$48,791,827)	(\$22,179,016 to \$48,791,827)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>(\$18,482,514 to \$40,659,855)</u>	<u>(\$22,179,016 to \$48,791,827)</u>	<u>(\$22,179,016 to \$48,791,827)</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

The proposed legislation authorizes a sales tax exemption for the purchase of diapers.

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

L.R. No. 0311S.01I

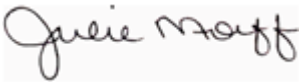
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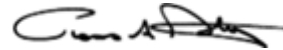
January 3, 2023

SOURCES OF INFORMATION

Department of Revenue
Office of Administration - Budget and Planning
Department of Natural Resources
Missouri Department of Conservation
Department of Social Services
City of Kansas City
City of Springfield



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January 3, 2023



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January 3, 2023