

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0438S.02C
 Bill No.: SCS for SB Nos. 73 & 162
 Subject: Taxation and Revenue - Sales and Use
 Type: Original
 Date: February 27, 2023

Bill Summary: This proposal authorizes sales tax exemptions for diapers and feminine hygiene products.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue Fund	(\$14,210,328 to \$35,241,068)	(\$17,052,393 to \$42,289,282)	(\$17,052,393 to \$42,289,282)
Total Estimated Net Effect on General Revenue	(\$14,210,328 to \$35,241,068)	(\$17,052,393 to \$42,289,282)	(\$17,052,393 to \$42,289,282)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
School District Trust Fund (0688)	(\$4,736,776 to \$11,747,023)	(\$5,684,132 to \$14,096,427)	(\$5,684,132 to \$14,096,427)
Parks and Soils State Sales Tax Fund(S) (0613 & 0614)	(\$473,677 to \$1,174,702)	(\$586,203 to \$1,411,888)	(\$586,203 to \$1,411,888)
Conservation Commission Fund (0609)	(\$590,450 to \$1,468,378)	(\$708,540 to \$1,762,054)	(\$708,540 to \$1,762,054)
Total Estimated Net Effect on <u>Other State Funds</u>	(\$5,800,903 to \$14,390,103)	(\$6,978,875 to \$17,270,369)	(\$6,978,875 to \$17,270,369)

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	(\$21,507,981 to \$47,810,382)	(\$25,809,577 to \$57,372,459)	(\$25,809,577 to \$57,372,459)

FISCAL ANALYSIS

ASSUMPTION

Section 144.030.2(47) Diaper Sales Tax Exemption

Officials from the **Department of Revenue (DOR)** note 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

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+	
	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)

DOR notes 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 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 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

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)

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

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 States 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.

Section 144.030.2(48) Feminine Hygiene Product Sales Tax Exemption

Officials from the **Department of Revenue** note information from numerous sources indicates that a woman menstruates 500 times in her lifetime, usually between the ages of 13-51. The average length of a period is 3-7 days. Sources indicate that a woman uses the following:

	Number per cycle	Number per year	Number in Box	Boxes per year
Tampons	20	260	36	7.22
Pads/Panty Liners	5	65	36	1.81

Note a woman has 13 cycles a year (28 day cycle)/352 days a year.

The price per tampons and pads vary. DOR used a low and high price when determining the fiscal impact.

	Price Low	Price High	Total Cost Low	Total Cost High
Tampons	\$7.00	\$10.00	\$50.56	\$72.22
Pads/Panty Liners	\$7.00	\$10.00	\$12.64	\$18.06
			\$63.19	\$90.28

Using information from the US Census Bureau (2020 ACS 5 year estimates), DOR calculated the number of women having a period in Missouri (those from 13-51) as 1,543,060.

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:

	FY 2024 (10 months)		FY 2025 +	
	Low	High	Low	High
General Revenue	(\$2,437,820)	(\$3,482,601)	(\$2,925,384)	(\$4,179,121)
School	(\$812,607)	(\$1,160,867)	(\$975,128)	(\$1,393,040)
Conservation	(\$101,576)	(\$145,108)	(\$121,891)	(\$174,130)
Park, Soil & Water	(\$81,261)	(\$116,087)	(\$97,513)	(\$139,304)
	\$0	\$0	\$0	\$0
Locals	(\$3,307,310)	(\$4,724,728)	(\$3,968,772)	(\$5,669,674)

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would exempt all sales of feminine hygiene products from sales tax beginning August 28, 2023.

B&P notes based on information from multiple sites, B&P estimates that women purchase an average of 6.8 to 7.2 boxes of tampons (average price \$7 to \$15) and 1.7 to 1.8 boxes (average price \$6 to \$15) of pads and liners per year (using the average cycle length of 28 to 30 days). B&P was also able to determine that the average age for menstruation is 12-51, and based on data provided by the United State Census 2020 population estimates (the most recent complete

year available), there are approximately 1,552,606 woman between those ages residing in Missouri.

Therefore, B&P estimates total sales of \$89,202,965 to \$210,826,336 may be impacted by this proposal. B&P estimates that this provision could reduce TSR by \$3,768,825 to \$8,907,413 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 \$3,630,561 to \$8,580,632 annually.

Responses regarding the proposed legislation as a whole

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 programming and form 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 notes this proposal will reduce state and local revenues by the following:

State Funds	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	(\$22,474,125)	(\$25,558,194)	(\$26,968,950)	(\$30,669,833)
School Districts	(\$7,491,375)	(\$8,519,398)	(\$8,989,650)	(\$10,223,278)
Conservation	(\$934,775)	(\$1,061,578)	(\$1,121,730)	(\$1,273,894)
Park, Soil & Water	(\$749,138)	(\$851,940)	(\$898,965)	(\$1,022,328)
Local Funds	(\$30,489,896)	(\$34,673,950)	(\$36,587,876)	(\$41,608,740)

B&P estimates that this proposal may reduce TSR by \$22,327,081 to \$49,631,171 during FY24. Once fully implemented in FY25, this proposal may reduce TSR by \$26,792,497 to \$59,557,405 annually. In addition, this proposal could reduce local sales taxes by \$25,809,577 to \$57,372,459 annually. Table 1 shows the estimated impact by provision and fund.

Table 1: Total Estimated Loss by Provision and Fund

<u>State Fund</u>	FY24		FY25+	
General Revenue				
Feminine Hygiene	(2,230,074)	(5,270,658)	(2,676,089)	(6,324,790)
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	(15,853,549)	(35,241,068)	(19,024,258)	(42,289,282)

Education				
Feminine Hygiene	(743,358)	(1,756,886)	(892,030)	(2,108,263)
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	(5,284,516)	(11,747,023)	(6,341,419)	(14,096,427)
Conservation				
Feminine Hygiene	(92,920)	(219,611)	(111,504)	(263,533)
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	(660,565)	(1,468,378)	(792,677)	(1,762,053)
DNR				
Feminine Hygiene	(74,336)	(175,689)	(89,203)	(210,826)
Diapers - Child	(120,663)	(162,113)	(144,796)	(194,536)
Diapers - Adult	(333,452)	(836,900)	(400,143)	(1,004,280)
Total DNR Loss	(528,452)	(1,174,702)	(634,142)	(1,409,643)
Total TSR Loss	(22,327,081)	(49,631,171)	(26,792,497)	(59,557,405)
<u>Local Funds</u>				
Feminine Hygiene	(3,025,467)	(7,150,527)	(3,630,561)	(8,580,632)
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	(21,507,981)	(47,810,382)	(25,809,577)	(57,372,459)

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 **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 would decrease the amount of sales tax revenue distributed to the Park, Soil, and Water Sales Tax Fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for DNR's funds.

In response to a previous version (SB 73), 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 that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC=s sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption would decrease the amount of sales tax revenue distributed to the Conservation Sales Tax Fund. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for MDC’s funds.

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

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 all local political subdivisions on the fiscal note.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities, counties, colleges, universities, and schools 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 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
Revenue Reduction - §144.030 - Exemption of sales tax on child diapers	(\$1,976,679 to \$4,863,399)	(\$2,372,015 to \$5,836,079)	(\$2,372,015 to \$5,836,079)
Revenue Reduction - §144.030 - Exemption of sales tax on adult diapers	(\$10,003,575 to \$25,107,011)	(\$12,004,289 to \$30,128,413)	(\$12,004,289 to \$30,128,413)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products	<u>(\$2,230,074 to \$5,270,658)</u>	<u>(\$2,676,089 to \$6,324,790)</u>	<u>(\$2,676,089 to \$6,324,790)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$14,210,328 to \$35,241,068)</u>	<u>(\$17,052,393 to \$42,289,282)</u>	<u>(\$17,052,393 to \$42,289,282)</u>

SCHOOL DISTRICT TRUST FUND (0688)			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers	(\$658,893 to \$1,621,133)	(\$790,672 to \$1,945,360)	(\$790,672 to \$1,945,360)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers	(\$3,334,525 to \$8,369,004)	(\$4,001,430 to \$10,042,804)	(\$4,001,430 to \$10,042,804)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products	(\$743,358 to \$1,756,886)	(\$892,030 to \$2,108,263)	(\$892,030 to \$2,108,263)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$4,736,776 to \$11,747,023)</u>	<u>(\$5,684,132 to \$14,096,427)</u>	<u>(\$5,684,132 to \$14,096,427)</u>
PARKS AND SOILS STATE SALES TAX FUNDS			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers	(\$65,889 to \$162,113)	(\$96,857 to \$196,782)	(\$96,857 to \$196,782)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers	(\$333,452 to \$836,900)	(\$400,143 to \$1,004,280)	(\$400,143 to \$1,004,280)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products	(\$74,336 to \$175,689)	(\$89,203 to \$210,826)	(\$89,203 to \$210,826)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>(\$473,677 to \$1,174,702)</u>	<u>(\$586,203 to \$1,411,888)</u>	<u>(\$586,203 to \$1,411,888)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers	(\$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	(\$416,816 to \$1,046,125)	(\$500,179 to \$1,255,351)	(\$500,179 to \$1,255,351)

<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products	(<u>\$92,920 to</u> <u>\$219,611</u>)	(<u>\$111,504 to</u> <u>\$263,533</u>)	(<u>\$111,504 to</u> <u>\$263,533</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(<u>\$590,450 to</u> <u>\$1,468,378</u>)	(<u>\$708,540 to</u> <u>\$1,762,054</u>)	(<u>\$708,540 to</u> <u>\$1,762,054</u>)

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL GOVERNMENT			
<u>Revenue Loss</u> - §144.030 Diaper & Feminine Hygiene Product Sales Tax Exemption	(<u>\$21,507,981 to</u> <u>\$47,810,382</u>)	(<u>\$25,809,577 to</u> <u>\$57,372,459</u>)	(<u>\$25,809,577 to</u> <u>\$57,372,459</u>)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	(<u>\$21,507,981 to</u> <u>\$47,810,382</u>)	(<u>\$25,809,577 to</u> <u>\$57,372,459</u>)	(<u>\$25,809,577 to</u> <u>\$57,372,459</u>)

FISCAL IMPACT – Small Business

Certain small businesses that sell feminine hygiene products and/or diapers could be impacted by this proposal.

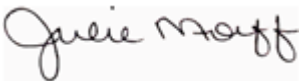
FISCAL DESCRIPTION

This act authorizes a sales tax exemption for the purchase of diapers, as defined in the act. This act also provides a sales tax exemption for all purchases of feminine hygiene products, defined as tampons, pads, liners, and cups.

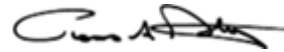
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



Julie Morff
Director
February 27, 2023



Ross Strobe
Assistant Director
February 27, 2023