

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0895S.01I
 Bill No.: SB 162
 Subject: Taxation and Revenue - Sales and Use
 Type: Original
 Date: February 10, 2023

Bill Summary: This proposal reduces the state sales tax rate 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*	(\$12,789,295 to \$31,716,962)	(\$17,052,393 to \$42,289,282)	(\$17,052,393 to \$42,289,282)
Total Estimated Net Effect on General Revenue	(\$12,789,295 to \$31,716,962)	(\$17,052,393 to \$42,289,282)	(\$17,052,393 to \$42,289,282)

*The fiscal impact for FY2024 is less because FY2024 is a partial year (9 months)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 144.016 Diapers and Feminine Hygiene Products Reduced Sales Tax Rate

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would reduce the state sales tax rate for feminine hygiene products and diapers from the current rate of 4.225% to the same rate as the levy on food beginning August 28, 2023. B&P notes that the state levy on food is equal to 1.225% and does not include the 3% tax that would otherwise be deposited into GR.

Diaper (Child) Sales Tax Reduction

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 $[(71,649 \times \$1,000) + (146,294 \text{ children} \times \$500)]$ up to \$194,535,960 $[(71,649 \times \$1,000) + (146,294 \text{ children} \times \$900)]$ may be impacted by this proposal. B&P estimates that eliminating the GR portion of the state sales tax, could reduce TSR and GR by \$4,343,880 to \$5,836,079 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 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 $(1,089,714 \times 25\%)$ individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 87,177 $(1,089,714 \times 8\%)$ 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 eliminating the GR portion of the state sales tax, could reduce TSR and GR by \$12,004,289 to \$30,128,413 annually.

Feminine Hygiene Products

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 reducing the sales tax rate on feminine hygiene products from 3.225% to 1.225% may reduce TSR and GR by \$2,676,089 to \$6,324,790 annually.

Summary

B&P estimates that this proposal may reduce TSR and GR by \$15,853,549 to \$35,241,068 in FY24. Once fully implemented in FY25, this proposal could reduce TSR and GR by \$19,024,258 to \$42,289,282 annually. Table 1 shows a summary of the estimated impact on TSR by sales tax exemption.

Table 1: Loss to GR by Exemption

<u>State Fund</u>	FY24		FY25+	
	Low	High	Low	High
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)
Feminine Hygiene Products	(\$2,230,074)	(\$5,270,658)	(\$2,676,089)	(\$6,324,790)
Total GR Loss	(\$15,853,549)	(\$35,241,068)	(\$19,024,258)	(\$42,289,282)

Officials from the **Department of Revenue (DOR)** note Beginning August 28, 2023, the tax levied and imposed under Chapter 144 on all retail sales of kid’s diapers, adult diapers and feminine hygiene products shall be levied at a rate that shall not exceed the sales tax levied on

the retail sale of food. The current state general sales tax rate is 4.225%. The current sales tax rate on food is 1.225%, the General Revenue portion of 3% is not collected. DOR notes the food sales tax only includes the portion of the tax that goes to the School District Trust Fund (1%), the Conservation Commission Fund (0.125%) and the Parks, Soil and Water Funds (0.1%).

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

The Department calculated the difference in the current amount paid in sales tax (4.225%) to the proposed amount (1.225%). DOR assumes this would eliminate the 3% General Revenue portion of the state sales tax.

	Tax Rate	Low Price Tax Collected	High Price Tax Collected
Current Rate	4.225%	3,340,588	6,786,986
Proposed Rate	1.225%	968,573	1,967,824

Difference		2,372,015	4,819,162
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This proposal is to start as of August 28, 2023 (FY 2024). Two months in FY 2024 the tax will continue to be collected. This would result in a loss to general revenue:

Fiscal Year	Low Impact	High Impact
FY 2024 (10 month)	(\$1,976,679)	(\$4,015,968)
FY 2025	(\$2,372,015)	(\$4,819,162)
FY 2026	(\$2,372,015)	(\$4,819,162)

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

The Department calculated the difference in the current amount paid in sales tax (4.225%) to the proposed amount (1.225%). DOR assumes this would eliminate the 3% General Revenue portion of the state sales tax.

	Tax Rate	Tax Collected
Current Rate	0.04225	30,520,767
Proposed Rate	0.01225	8,849,216
Difference		21,671,551

DOR assumes this proposal would become effective August 28, 2023. Therefore, there will be two months of tax collected in FY 2024 before the products become reduced. DOR will show 10 months of impact in FY 2024.

Fiscal Year	Impact
FY 2024 (10 months)	(\$18,059,625)
FY 2025	(\$21,671,551)
FY 2026	(\$21,671,551)

Feminine Hygiene Products

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 between 13-51) as 1,543,060.

	Total Cost Low	Total Cost High
Total estimated cost per year	\$97,512,817	\$139,304,024
GR Portion	\$2,925,384	\$4,179,121

This proposal begins August 28, 2023 (FY 2024). Therefore, there will be two months of tax collected in FY 2024 before the products become reduced. DOR will show 10 months of impact

in FY 2024. This would result in the following loss:

FY23 (10 months)		FY24		FY25	
Low	High	Low	High	Low	High
\$2,437,820	\$3,482,601	\$ 2,925,384	\$ 4,179,121	\$ 2,925,384	\$ 4,179,121

Summary

This will reduce general revenue and total state revenue by the following:

General Revenue	FY 2024 (10 months)		FY 2025 +	
	Low	High	Low	High
Child diapers	(\$1,976,679)	(\$4,015,968)	(\$2,372,015)	(\$4,819,162)
Adult diapers	(\$18,059,625)	(\$18,059,625)	(\$21,671,551)	(\$21,671,551)
Feminine Hygiene	(\$2,437,820)	(\$3,482,601)	(\$2,925,384)	(\$4,179,121)
Total GR Loss	(\$22,474,124)	(\$25,558,194)	(\$26,968,950)	(\$30,669,834)

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.

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

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

Officials from the **Department of Health and Senior Services, Department of Social Services,** and the **City of Springfield** 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 these entities.

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 this proposal reduces the sales tax rate of diapers and feminine hygiene products to the state food sales tax rate of 1.225%. This remaining portion of the state sales tax rate would be distributed to the School District Trust Fund (1%), the Conservation Commission Fund (0.125%) and the Parks, Soil and Water Funds (0.1%). Therefore, **Oversight** will show no fiscal impact to these funds/agencies for this proposal.

Oversight notes both DOR & B&P assume this proposal will have a negative fiscal impact to the general revenue fund. Oversight will show B&P's and DOR's lowest and highest projected fiscal estimates to show the minimum low and maximum high impact of this proposal.

Oversight notes this reduction in sales tax will begin October 1, 2023. Oversight will show a reduced loss in Fiscal Year 2024 (effective October 1, 2023). Therefore, the impact for Fiscal Year 2024 will be shown for nine months.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Revenue Reduction</u> - §144.016 - Reduction of sales tax rate on child diapers	(\$1,779,011 to \$4,377,059)	(\$2,372,015 to \$5,836,079)	(\$2,372,015 to \$5,836,079)
<u>Revenue Reduction</u> - §144.016 - Reduction of sales tax rate on adult diapers	(\$9,003,217 to \$22,596,310)	(\$12,004,289 to \$30,128,413)	(\$12,004,289 to \$30,128,413)
<u>Revenue Reduction</u> - §144.016 - Reduction of sales tax rate on feminine hygiene products	(\$2,007,067 to \$4,743,593)	(\$2,676,089 to \$6,324,790)	(\$2,676,089 to \$6,324,790)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$12,789,295 to \$31,716,962)</u>	<u>(\$17,052,393 to \$42,289,282)</u>	<u>(\$17,052,393 to \$42,289,282)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses that sell or buy feminine hygiene products or diapers would have to collect/pay a different sales tax rate on these items.

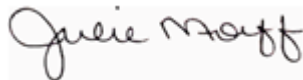
FISCAL DESCRIPTION

This act provides that the state sales tax rate on retail sales of diapers and feminine hygiene products, as such terms are defined in the act, shall be imposed at the rate imposed on retail sales of food, which is currently one percent.

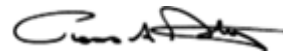
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

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



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