COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1015H.05C
Bill No.: HCS for SS for SB 23
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Taxation and Revenue - Sales and Use; Department of Revenue; Motor Vehicles; Transportation; Taxation and Revenue - Income
Type: #Updated
Date: May 3, 2023

#Updated the impacts to the Blind Pension Fund and to local political subdivisions from §137.115, as an updated local personal property tax rate and current depreciation schedule data was obtained by the Office of Administration - Budget and Planning p. (1, 2, 5-8, 62, 64, and 65)

Bill Summary: This proposal modifies provisions relating to commerce.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
General Revenue	($389,646,917)	($1,000,589,986)	($997,638,171)	($1,353,212,854)
Total Estimated Net Effect on General Revenue	**($389,646,917)**	**($1,000,589,986)**	**($997,638,171)**	**($1,353,212,854)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
State Road Fund	Could exceed ($97,229,874 to $175,776,623)	Could exceed ($121,613,766 to $190,955,159)	Could exceed ($172,137,500 to $260,118,525)	Could exceed ($197,228,331 to $290,426,494)
#Blind Pension Fund	$0	#Could exceed ($2,499,449)	#Could exceed ($2,499,449)	#Could exceed ($2,499,449)
Conservation Commission Fund	$0 or Up to ($253,656)	$0 or Up to ($304,387)	$0 or Up to ($304,387)	$0 or Up to ($304,387)
Parks, Soils and Water Fund	$0 or Up to ($202,925)	$0 or Up to ($243,510)	$0 or Up to ($243,510)	$0 or Up to ($243,510)
School District Trust Fund	$0 or Up to ($1,014,623)	$0 or Up to ($1,217,548)	$0 or Up to ($1,217,548)	$0 or Up to ($1,217,548)
State Road Bond Fund	$0 or Up to ($3,043,870)	$0 or Up to ($3,652,644)	$0 or Up to ($3,652,644)	$0 or Up to ($3,652,644)
#Total Estimated Net Effect on <u>Other</u> State Funds	**Could exceed ($97,229,874 to $180,291,697)**	**#Could exceed ($124,113,215 to $198,872,697)**	**#Could exceed ($174,636,949 to $268,036,063)**	**#Could exceed ($199,726,780 to $298,344,032)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Total Estimated Net Effect on FTE	**0 FTE**	**0 FTE**	**0 FTE**	**0 FTE**

☒ 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	Fully Implemented (FY Unknown)
#Local Government	**Could exceed ($35,020,850 to $72,976,182)**	**#Could exceed ($606,215,702 to $642,990,908)**	**#Could exceed ($624,902,563 to $668,571,879)**	**#Could exceed ($634,182,772 to $679,781,715)**

FISCAL ANALYSIS

ASSUMPTION

§137.115 – Motor Vehicle Property Tax Assessment

In response to a similar proposal from 2023 (HCS for SB 247), officials from the **Department of Revenue (DOR)** noted this provision changes how the assessment rate will be determined for motor vehicles. Property tax assessments are handled by county assessors and the State Tax Commission and per this proposal would be responsible for the creation of the manufacturer's suggested retail value database. This provision does not impact the Department and DOR defers to the State Tax Commission and the counties for their estimated fiscal impact.

In response to a similar proposal from 2023 (HCS for SB 247), officials from the **State Tax Commission (STC)** assumed this has an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The bill would require additional FTE for the State Tax Commission to receive the Manufacturer Suggested Retail Price (MSRP) from a vendor and then configure that data to fit the multiple assessment programs used in the state. The cost of the data as well as the cost of licensing for each county in the state has been estimated to be less than $200,000.

The bill allows for all currently assessed vehicles to use a previously assessed value in the depreciation schedule, but the MSRP would have to be obtained for each new vehicle and used vehicles purchased from outside of the state by Vehicle Identification Number. The current system uses average trade in value listed in the October issue of the National Automobile Dealers Association guide and that value will be less than the starting value of MSRP in most cases which could cause an increase in assessments.

The use of a depreciation schedule would require that the vehicle values decrease each year regardless of the true market values which could cause a decrease in the assessments generated. The depreciation schedule stopping after 10 years would cause a reduction due to approximately 50% of vehicles being removed from assessment and that would lead to approximately a 35% reduction of the total assessment for motor vehicles. The impact varies by county as the percentage of real and personal property in each county depends on several factors. The range of personal property assessed value compared to the total assessed value goes from 15.8% to 46.5% with the average being 29.5% in 2022, so the higher percentages would be impacted at greater amounts.

The bill also includes farm machinery which would follow the same pattern as the motor vehicles. Farm machinery and equipment accounts for small percentage of the total personal property but it would have a greater impact on rural counties. The bill also requires all of the software used in the counties to meet minimum standards which could require a cost to some counties for upgrades.

In response to a similar proposal from 2023 (HCS for SB 247), officials from the **County Employees' Retirement Fund (CERF)** noted this section would likely result in reductions in contribution revenue to CERF of an unknown amount annually. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. Data is not available to quantify how changes to motor vehicle assessments would impact contribution revenue but CERF assumes there would be a negative impact.

#Officials from the **Office of Administration - Budget and Planning (B&P)** noted for tax year 2023, this proposal would require county assessors to use a national publication other than the currently required NADA guide when determining the market value for motor vehicles. The STC shall determine which publication all assessors will use and the assessors may then use the values published in any of the three previous October issues.

#For tax years beginning with 2024, each county assessor must use the MSRP and then depreciate the motor vehicle value following the proposed 10-year depreciation schedule. B&P notes that the definition of motor vehicle includes all property required to be licenses and registered plus farm tractors and machinery which are capable of moving on the roads at low speeds. For used vehicles, county assessors are to take the 2023 market value and apply the appropriate depreciation rate(s) going forward.

#Using sales data published by the U.S. Bureau of Transportation Statistics, B&P was able to determine the average price for new vehicles from 1990 – 2021. B&P then used published articles to estimate the average sales price for new vehicles in 2022 and 2023. Based on research, B&P was able to obtain a depreciation schedule similar to the one historically shown in the NADA publications. In addition, DOR provided data to B&P with the number of motor vehicles registered in Missouri by model year. Table 1 shows the comparison between the estimated current depreciation schedules used in NADA versus the proposed schedule for model years 2003 - 2023. B&P notes that the amounts shown are the percentage of market value remaining after depreciation.

#Table 1: Proxy and Proposed Depreciation Schedule

Model Year	Current Remaining Value	Proposed Remaining Value	Difference	Model Year	Current Remaining Value	Proposed Remaining Value	Difference
2023	85.0%	85.0%	0.0%	2012	26.1%	0.1%	(26.0%)
2022	75.0%	75.0%	0.0%	2011	23.5%	0.1%	(23.4%)
2021	67.5%	67.5%	0.0%	2010	21.2%	0.1%	(21.1%)
2020	61.7%	54.7%	(7.0%)	2009	19.1%	0.1%	(19.0%)
2019	54.7%	49.7%	(5.0%)	2008	17.2%	0.1%	(17.1%)
2018	49.2%	44.2%	(5.0%)	2007	15.4%	0.1%	(15.3%)
2017	44.3%	39.9%	(4.4%)	2006	13.9%	0.1%	(13.8%)
2016	39.9%	24.8%	(15.1%)	2005	12.5%	0.1%	(12.4%)
2015	35.9%	16.8%	(19.1%)	2004	11.2%	0.1%	(11.1%)
2014	32.3%	12.8%	(19.5%)	2003	10.0%	0.1%	(9.9%)
2013	29.0%	10.0%	(19.0%)				

**2002 and older estimates calculated, but not shown.*

#B&P then took the original sales data and applied the current depreciation schedule and the proposed schedule to determine the difference in market values. B&P notes that motor vehicles are then assessed at 33.33% of their market value, while farm machinery is assessed at 12% of market value. Table 2 shows the estimated average current and proposed assessed values for model years 2003 – 2023.

#Table 2: Estimated Current and Proposed Average Assessed Value

Model Year	Est. Current Assessment	Est. Proposed Assessment	Difference	Model Year	Est. Current Assessment	Est. Proposed Assessment	Difference
2023	$14,213	$14,213	$0	2012	$3,028	$12	($3,016)
2022	$11,909	$11,909	$0	2011	$2,789	$12	($2,777)
2021	$10,218	$10,218	$0	2010	$2,500	$12	($2,488)
2020	$8,065	$7,150	($915)	2009	$1,669	$9	($1,660)
2019	$6,922	$6,290	($632)	2008	$1,516	$9	($1,507)
2018	$6,130	$5,507	($623)	2007	$1,382	$9	($1,373)
2017	$5,482	$4,937	($545)	2006	$1,243	$9	($1,234)
2016	$4,901	$3,046	($1,855)	2005	$1,032	$8	($1,024)
2015	$4,353	$2,037	($2,316)	2004	$898	$8	($890)
2014	$3,818	$1,513	($2,305)	2003	$762	$8	($754)
2013	$3,416	$1,178	($2,238)				

**2002 and older estimates calculated, but not shown.*

#Using data published by STC, B&P estimates that the statewide average personal property tax rate is 6.8%. B&P notes that the Blind Pension Trust Fund levies a statewide property tax of $0.03 per $100 value. Table 3 shows the estimated state and local revenue impact by model year.

#Table 3: Estimated Revenue Impact by Model Year

Model Year	# Registered MVs	Est. Blind Pension Loss	Est. Local Revenue Loss
2023	93,124	$0	$0
2022	250,577	$0	$0
2021	281,533	$0	$0
2020	287,551	($77,639)	($17,716,017)
2019	331,860	($63,053)	($14,120,643)
2018	338,301	($64,277)	($14,191,727)
2017	366,085	($58,574)	($13,435,320)
2016	348,732	($195,290)	($43,556,627)
2015	348,451	($240,431)	($54,340,933)
2014	318,691	($219,897)	($49,464,030)
2013	297,730	($199,479)	($44,864,934)
2012	273,170	($245,853)	($55,475,364)
2011	233,800	($194,054)	($43,718,262)
2010	204,757	($153,568)	($34,300,893)
2009	170,742	($85,371)	($19,083,833)
2008	241,668	($108,751)	($24,522,052)
2007	244,129	($100,093)	($22,569,726)
2006	234,404	($86,729)	($19,476,628)
2005	221,323	($68,610)	($15,260,221)
2004	214,644	($57,954)	($12,861,468)
2003	179,193	($41,214)	($9,097,629)
2002 and older	1,403,602	($238,612)	($54,529,938)
#Total Estimated Impact		**($2,499,449)**	**($562,586,245)**

#Therefore, B&P estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by up to $2,499,449 and local revenues by up to $562,586,245. B&P notes that this provision would affect tax year 2024 assessments, which are not collected until FY25.

<u>#B&P notes the following about the above estimates:</u>

- Sales date reflects actual sales and not MSRP. B&P notes that MSRP is typically higher (sometimes significantly) than the original actual sales price paid. Therefore, it is possible that newer vehicles could be assigned a higher market value (and hence assessed value and property tax liability) than they would under current law. This would result in a lower revenue loss than the amount shown above.
- This proposal would set all older vehicles (model year 2023 and prior) to their tax year 2023-estimated market value. B&P notes that tax year 2023 assessments are not yet complete. Therefore, in order to provide estimates, B&P applied the depreciation schedule to each model year's average original sales price. B&P notes that 2023 determined market values could vary significantly from the proxy value that B&P has estimated. This could result in a larger or smaller revenue loss than the amounts shown above.

- The historical depreciation schedule is based on pre-COVID depreciation patterns. B&P is unable to determine how quickly motor vehicle depreciation will return to pre-COVID levels. Therefore, actual revenue loss could be different from the amount shown above.
- These estimates are based on averages. These estimates do not include farm tractors or machinery. B&P does not have depreciation data on farm tractors or machinery. The composition of vehicle types, model years, etc. in any given location could result in significantly different revenue impacts than the estimates shown above.

#**Oversight** notes officials from the Office of Administration - Budget and Planning assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect B&P's estimated impact in the fiscal note.

#**Oversight** notes B&P's estimated impact does not include farm tractors or machinery. Oversight is unable to estimate the quantity and current value of farm machinery that may be impacted by this proposal. Oversight notes per the STC website, agricultural property makes up 1.45% of the total assessed value, or about $1,959,656,045. Oversight will show a negative unknown impact for this provision.

Oversight notes this section of the proposal has an emergency clause.

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law), rather it would result in an actual loss of revenue.

Based on information provided by the Office of the State Auditor, Oversight notes, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities, which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

In response to a similar proposal from 2023 (HCS for SB 247), officials from the **Lincoln County Assessor** assumed this would be a significant assessed value loss and property tax loss in using a 10 depreciation schedule and with almost zero value for the floor. Lincoln County has over 60% of its vehicles that are over 10 years old. This could potentially lose $100,000's of tax revenue to taxing districts. The worry is that the tax burden will shift to the real property owners to make up any lost revenues.

In response to a similar proposal, SB 493 (2023), officials from the **Ste Genevieve County Assessor** estimated the revenue loss if vehicles 20+ yrs will be assessed at a $300 market value /

$100 assessed value at $38,704.60 for total revenue lost for the county and $657.98 loss in revenue to the assessment fund.

In response to a similar proposal, SB 493 (2023), officials from the **Adair County SB40 Board** noted the county board currently has approximately $104M in Personal Property Assessed Valuation taxed at .1456 for an estimated Personal Property Tax revenue of $150,000. The local assessor estimated 61% of all vehicles are over 10 years old. It's difficult to calculate what the impact will be with a depreciation schedule of 20 years. The most important statement to understand is that ANY loss in property tax revenues WILL result in a reduction of essential services to people with intellectual and developmental disabilities in Adair County. Types of services that could be significantly reduced include sheltered employment, supported employment, transition services and other collaborative programs with the public schools, educational courses such as citizenship, relationships, healthcare self-advocacy, etc. Also, the agency's contribution of 20% share to leverage another 20% from state and 60% from federal Medicaid waiver dollars ('Partnership for Hope funds') would be reduced.

In response to a similar proposal, SB 493 (2023), officials from the **St Louis City SB40 Board** noted per data from their county assessor, they assume the following fiscal impacts:

		Before Legislation	**Taxes**
Vehicles	**2013-2022**	518,399,258	$42,851,401
	2012 & Older	85,768,109	$7,089,678
		604,167,367	**$49,941,079**
		After Legislation	**Taxes**
		213,195,500	$17,622,953
Difference from changes to vehicles		390,971,867	$32,318,126

Total 2022 PP Value at 33.33%		1,259,655,321	
Vehicles		604,167,367	
All other Personal Property	**@ 33.33%**	655,487,954	$54,183,290
	Market Value	1,966,463,861	
	@ 31%	609,603,797	$50,390,459
	AV decrease (non-vehicles)	**45,884,157**	**$3,792,830**

Loss in taxes from change to 31% assessment rate and applying vehicle depreciation schedule	$32,318,126
Loss in taxes from change to 31% assessment on personal property other than vehicles	$3,792,830
Loss from Legislation to all taxing jurisdictions	$36,110,956
City Portion (loss)	$7,226,909
Developmentally Disabled (loss)	$598,493
Loss to Collector of Revenue Fund	$541,664
Loss to Assessment Fund	$225,693

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Howell County** noted Section 137.115(10) of this bill will have a major adverse impact on local government revenues. In Howell County, the personal property this targets is 67% of the total personal property assessed value and generated $3,410,920 of local funding in 2022. Statewide it is 21% of total assessed value generating $1,987,103,270 of local funding. This proposal does not offer any method of replacement as required by law.

A 9 year depreciation schedule is too rapid for vehicles, the most appropriate schedule is 15 years and it will still reduce taxes annually but not create as large a shift in the tax burden to real property.

Adding farm machinery to this is problematic as there is no centralized list of who owns farm machinery and the assessment of farm machinery is voluntary reporting under current statutes. This will add another $300,000 in lost revenue.

Total estimated local revenue loss in Howell County $4,183,400

Total estimated local revenue loss statewide $3,000,000,000 or more.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Andrew County** noted the depreciation table in SB 8 is used on motor vehicles and farm machinery over 10 years old or older. The number of motor vehicles in the county 10 years old or older stands at 16,292, while the number of farm machinery 10 years or older in the county is 1,522.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Barton County** noted they have more than 8,000 motor vehicles that are 10 years or older and only 3,323 motor vehicles newer than 10 years old. The county projects it would lose $563,437 in tax revenue. For farm machinery, the county projects it would lose $311,291 in tax revenue, as the county has more than 4,500 pieces of farm machinery 10 years old or older.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Boone County** noted Boone County has about 81,000 motor vehicles that ace 10 years old or older, which makes up 72% of the county's motor vehicles. If the deprecation schedule in SB 8 was implemented the assessed value of motor vehicles would decrease from $605 million to $225.4 million.

By applying the average Boone County levy of $6.5000, the loss of revenue due to change in depreciation would be $24,680,000. Boone County billed approximately $55,000,000 in personal property tax revenue in 2022. Boone County would see a 45% decrease in personal property tax revenue due to SB 8.

The county also says 82% of the farm machinery is 10 years old or older. Applying the proposed depreciation table in SB 8 the total assessed value of (farm machinery) would decrease from $3.060,694 to $545,577. Again, by applying the average Boone County levy of $6.5000 loss of revenue due to change in depreciation would be $163,500,

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Buchannan County** noted Buchannan County has 19,677 motor vehicles registered that are more than 20 years old and 47,114 that are 10 years old or older. The amount of tax revenue the county is expected to lose if SB 8's depreciation schedule is implemented would be $2.92 million. The county expects it would lose more than $71,000 on pieces of farm machinery that are 10 years old or older.

The revenue loss on motor vehicles 10 years old or older to the St. Joseph School District would be more than $1.5 million, while the county's 12 fire district could lose $59,000 in personal property tax revenue.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Butler County** noted Butler County officials say 69% of the total vehicles for the county are 10 years old or older with a total value of 103,894,020. At current assessed rate of 33.33% the tax dollars are $1,539,832 vs 31% $1,432,187. Difference of $107,645, If all vehicles over 10 years old go to $1 assessed the tax dollars would drop to $1,730,524. A difference of $1,430,619 just in 10+ year old vehicles (doesn't include farm equipment).

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Calloway County** noted county officials claim that there are 36,712 motor vehicles that are 10 years old or older in the county. The new depreciation schedule in SB 8 would result in a revenue loss of more than $1.6 million on those vehicles if SB 8 was implemented.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Chariton County** noted changing the depreciation table to only assess vehicles for 10 years would have a very negative effect on assessed valuation. Currently 69% of the vehicles in Chariton County are older than 10 years and they have an assessed valuation of $6,645,660. Assuming a $7.00 levy this portion would result in a $465,196.00 loss of revenue to taxing entities,

Second, changing the depreciation table to only assess farm machinery for 10 years would have a greater affect than vehicles. Currently 90% of the farm machinery in Chariton County is older than 10 years and has an assessed valuation of $8,627,140. Assuming a $7.00 levy this portion would result in a $603,890 loss of revenue to taxing entities.

Lastly, the accelerated depreciation table to get the vehicles depreciated by the time that they are 10 years old could be the costliest of all. This figure is impossible to produce, but Chariton County officials are confident that it would be a least another $1,000,000.00 loss of revenue to the taxing entities.

Chariton County officials would like to stress that while schools may have the ability to increase levies and pass the expense onto another sub-class. Many of the fire districts, ambulance districts, road districts etc. have a statutory limit to their tax rate, which many are already charging. They have no way to recoup the loss of revenue. The legislature is limiting them on both sides of the equation

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Clinton County** noted Clinton County has 15,357 motor vehicles that are 10 years old or older and 1,516 pieces of farm machinery that are 10 years old or older. Under the new depreciation schedule in SB 8, the county would expect to lose $1.34 million on motor vehicles and nearly $96,000 on farm machinery.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Cole County** noted Cole County has 49,146 motor vehicles that are 10 years old or older. Under the new depreciation schedule in SB 8, the county would expect to lose $2.2 million in personal property tax on those vehicles

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Dallas County** noted their County has nearly 12,100 motor vehicles that are 20 years old or older and 21,750 motor vehicles that are 10 years old or older, which makes up for 74% of the motor vehicles in Dallas County.

Dallas County says 75% of the farm machinery in the county is over 10 years old. This will cause a $1,457,991 decrease in assessed value which is about a $70,000 loss in tax revenue.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Franklin County** noted the county has nearly 25,000 motor vehicles that are 20 years or older, and more than 58,500 motor vehicles that are 10 years or older. If SB 8 is implemented, Franklin County projects its assessed valuation on motor vehicles to decrease by $70.6 million.

Franklin County also has more than 4,900 pieces of farm machinery that is 10 years or older and projects the assessed valuation on those items will decrease by $1.1 million.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Greene County** noted the county has 168,311 motor vehicles that are 10 years old and older and applying the new depreciation scheduled in SB 8 could cause a revenue loss of nearly $16 million. The county has 2,991 items registered as farm machinery and would expect a loss of more than $97,000 in tax revenue if 8B 8 is implemented.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Harrison County** noted the county had an assessed valuation of more than $8.86 million on vehicles that were 10 years old or older in 2022. If SB § is implemented the projected loss in assessed valuation would be $8.85. The estimated loss in assessed valuation for farm machinery in the county would be more than $2.8 million.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Holt County** noted Holt County has nearly 6,200 motor vehicles in the county that are 10 years old or older and 3,201 that are 20 years old and older. The fiscal impact on the county if the new depreciation schedule in SB 8 is implemented would be a revenue loss of more than $291,000, the revenue impact on farm machinery 10 years old or older would be a loss of more than $133,000,

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Lincoln County** noted the county estimates it has 44,000 vehicles in the county that are 10 years old or older and 23,000 vehicles that are 20 years old or older. If the depreciation schedule change in SB 8 on motor vehicles and farm machinery was implemented, it could take the normal assessment value of more than $50 million on those motor vehicles/farm machinery 10 years old or older in the county and drop it to an assessed valuation of more than $46,000.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Miller County** noted the bill would basically zero out 34,921 items (all motorized vehicles and farm machinery older than 10 years.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Newton County** noted the county has 55,516 motor vehicles that are 10 years old or older and 26,442 motor vehicles that fall into the category of 20 years old or older. If the depreciation schedule in SB 8 was implemented the county projects a tax revenue loss of nearly $3 million.

Newton County has 1,665 pieces of farm machinery in its county but is unable to identify how many of those pieces are 10 years old or older at this time.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Nodaway County** noted according to county officials, there are more than 17,251 motor vehicles that are 10 years old and older, which would account for more than $935,000 loss in tax revenue generated from those vehicles.

In response to a similar proposal from 2023 (HCS for SB 247), officials **Oregon County** noted Oregon County has 9,719 motor vehicles/farm machinery that are 10 years old or older in the county and that the tax revenue generated from the personal property on those items will be significantly reduced.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Pettis County** noted the county projects a loss of $1.5 million in tax revenue the depreciation table in SB 8 is used on motor vehicles and farm machinery over 10 years old or older. The county also projection a loss of more than $134,000 on farm machinery that is 10 years old or older is the depreciation schedule in SB 8 is implemented.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Phelps County** noted the amount of tax revenue lost by the taxing entities in the county if the new depreciation schedule was implemented on motor vehicles and farm machinery 10 years old or older would be more than $612,000. The county has 22,445 motor vehicles that are 10 years old or older and 746 pieces of farm machinery that is 10 years old or older.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Ralls County** noted the county has 13,207 vehicles that are 10 years old or older and, if the new depreciation scheduled in SB 8 was implemented, county officials project a $12.56 million loss in assessed value.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Randolph County** noted the county has more than 8,000 motor vehicles that are 10 years old or older and would stand to lose $772,000 if the new depreciation table was implemented.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Scotland County** noted 64% of the vehicles assessed in Scotland County are 10 years old or older

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Scott County** noted the county has more than 45,000 vehicles with more than 29,000 of them being 10 years old and older. Scott County projects a loss of more than $2.3 million from vehicles that are 10 years old or older. The county also has 1,624 items dedicated as farm machinery with more than

1,300 being 10 years old or older. The estimated loss on tax revenue from farm machinery if SB 8 was implemented would be nearly $450,000.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Shelby County** noted this will have a huge impact on the assessed valuation of Shelby County.

There will be an estimated assessed valuation loss of $23,710,683 by using this new 10 year depreciation schedule on vehicles and farm equipment. That is 54% of the county's total personal property valuation in Shelby County and would be an estimated loss in tax revenue in excess of $1,707,169 to taxing entities. There is no clear answer as to how these revenue losses will be replaced.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **St Clair County** assumed SB 8 would negative affect the county's budget, as well as other taxing entities in the county. As a rural county, St. Clair County does not take in much sales tax revenue to offset any loss of tax revenue on personal property tax.

At this time, the county cannot determine the number of vehicles in the county that are 10 years old or older but does project that 75% of the farm equipment would be over 10 years of age. This new depreciation schedule in SB 8 would impact tax revenue generated from farm machinery is already assessed at a lower percentage of 12%.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Sullivan County** noted a loss of $315,000 in tax revenue on 6,173 motor vehicles 10 years old or older due to the new depreciation schedule in SB 8. Farm machinery 10 years old or older is estimated to generate $152,000 less in tax revenue because of the depreciation schedule in SB 8.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Washington County** noted the number of motor vehicles in the county 10 years old or older stands at 21,749.

In response to a similar proposal from 2023 (HCS for SB 247), officials from **Andrew County** stated they have 64% of vehicles 11 years and older. This will shift the short fall to the real-estate. Then the county will need to increase the values higher and higher and they are having problems keeping up with the market as it is. And to make it worse they are adding farm machinery to the 10 year table. Andrew County is running at 89% on farm machinery that is over 10 years old. The County has items that will last 30-50 years and more.

<u>§142.822.2(2) - Refund Timing Change</u>

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

<u>Motor Fuel Refund Period Change (§142.822.2)</u>

SB 262 adopted in 2021, created a provision that would increase the motor fuel tax rate over a period of five years. At the time, motor fuel (gasoline and diesel) were taxed at $0.17 per gallon. SB 262 would allow the motor fuel rate to increase each year on July 1st until the highest rate of $0.295 was reached. At that time, the motor fuel rate would remain $0.295 into the future.

The rate is currently increasing as follows:

FY Tax Rate	**Refund Can Be Claimed (July to Sept)**	**Tax Increase**	**Total Motor Fuel Tax**	**Fully Implemented (FY 2027)**
FY 2022	FY 2023	$0.025	$0.195	
FY 2023	FY 2024	$0.05	$0.220	
FY 2024	FY 2025	$0.075	$0.245	
FY 2025	FY 2026	$0.1	$0.270	
FY 2026+	FY 2027+	$0.125	$0.295	$0

SB 262 also contained a provision that created a refund program for highway users who did not want to pay the increased motor fuel rate. While they would still be required to pay the tax at the fuel pump they could request from DOR that the increased amount be refunded to them. The refund period was established starting July 1- Sept 30th of the following fiscal year. Since the rate hike is for the full fiscal year (July to June) the refund period also covered that same fiscal year. In order to receive the refund a taxpayer completes a form with the statutorily required information and the extra motor fuel tax is refunded.

This proposal changes the refund period. Instead of claiming the credit from July to Sept after the fiscal year ends, this proposal moves the refund period to January 1st to April 15th of each year. Filing at this time of year, will result in refund claim forms having 2 separate motor fuel rates on them. This will start on January 1, 2024.

Timing of Refund Claims

Date of Purchase	Fuel Tax Rate	Current Refund Timing		Proposed Refund Timing	
		Date	Fiscal Year	Date	Fiscal Year
10/2021 - 12/2021	$0.025	7/2022 - 9/2022	FY 2023	7/2022 - 9/2022	FY 2023
1/2022 - 6/2022	$0.025	7/2022 - 9/2022	FY 2023	7/2022 - 9/2022	FY 2023
7/2022 - 12/2022	$0.050	7/2023 - 9/2023	FY 2024	1/2023 - 4/2023	FY 2024
1/2023 - 6/2023	$0.050	7/2023 - 9/2023	FY 2024	7/2023 - 9/2023	FY 2024
7/2023 - 12/2023	$0.075	7/2024 - 9/2024	FY 2025	1/2024 - 4/2024	FY 2024
1/2024 - 6/2024	$0.075	7/2024 - 9/2024	FY 2025	1/2025 4/2025	FY 2025
7/2024 - 12/2024	$0.100	7/2025 - 9/2025	FY 2026	1/2025 - 4/2025	FY 2025
1/2025 - 6/2025	$0.100	7/2025 - 9/2025	FY 2026	1/2026 - 4/2026	FY 2026
7/2025 - 12/2025	$0.125	7/2026 - 9/2026	FY 2027	1/2026 - 4/2026	FY 2026
1/2026 - 6/2026	$0.125	7/2026 - 9/2026	FY 2027	1/2027 - 4/2027	FY 2027
7/2026 - 12/2026	$0.125	7/2027 - 9/2027	FY 2028	1/2027 - 4/2027	FY 2027

<u>This part of the proposal will not result in any additional gains or losses to the motor fuel funds than what was projected in SB 262. It changes the timing of the refunds and not who or how many taxpayers may qualify for the refund. So the impact below shows how much of the refunds will now shift to another fiscal year (refund period).</u>

DOR notes that the first refund period was completed from July 2022 to September 2022 for the increase that occurred from October 1, 2021 to June 30, 2022. That increase was $0.025. So it will not be impacted. DOR records indicate $423,947 in refunds were claimed, while receiving an additional $70,621,241 from the increased motor fuel rate. Therefore, DOR refunded approximately 0.6% ($423,947/$70,621,251) of the additional revenue.

DOR has done revenue estimates for SB 262, that were updated using the FY 2022 motor fuel gallons sold data for this fiscal note. Additionally, for SB 262, DOR had assumed a low range of refunds at 15% (based on another state with a similar program). DOR assumes that given the increasing price of the fuel tax and current economic conditions, more than the 0.6% refunds currently requested could be received in the upcoming fiscal years. For this fiscal note, DOR is showing the refund claims ranging from the current 0.6% to the 15% under SB 262 for the shift in the refund period.

Estimated Cash Flow Impact from Refund Claim Due to Date Timing

	FY 2024		FY 2025		FY 2026	
State Fund	**Low**	**High**	**Low**	**High**	**Low**	**High**
State Road Fund	($513,112)	($12,821,146)	($171,037)	($4,273,715)	($171,037)	($4,273,715)
Local Funds						
CART	($84,347)	($2,107,586)	($28,116)	($702,529)	($28,116)	($702,529)
Other	($105,434)	($2,634,482)	($35,145)	($878,161)	($35,145)	($878,161)
Total Local	($189,781)	($4,742,068)	($63,260)	($1,580,689)	($63,260)	($1,580,689)

This proposal will result in the Department needing to change the forms and the computer program to accept more than one tax rate at a time. This is estimated to cost **$10,000**. Having more than one motor fuel tax rate on the refund claim form may slow down the processing of the forms. DOR needs one Associate Customer Service Representative ($32,100) for every 6,000 claims processed at a single rate per year. Additionally, records indicate the average time to process a refund request was 19 days. If it is determined that additional FTE are needed to help process the refunds, DOR will seek those through the appropriation process.

Currently, taxpayers are allowed to submit these forms electronically or a hard copy mailed. Should the forms be mailed to DOR separate than their tax return, DOR assumes no additional impact. However, if a taxpayer mails their claim form with their individual income tax return, this could slow down the processing of the returns and require additional temporary staff ($12,750) to help sort out those claim forms.

SB 262 requires all refund requests to be processed within 45 days or DOR must pay interest on the claim. If moving the deadline results in slower processing times, this could result in an unknown amount of interest being paid.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the programming costs related to this part of the proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

In response to a similar proposal from 2023 (Perfected HB 519), officials from the **Office of Administration - Budget and Planning (B&P)** assumed the following regarding this proposal:

This proposal would change the timing for motor fuel tax refund claims for the additional fuel tax passed in SB 262 (2021). Currently, motor fuel tax refund claims must be made on a fiscal year basis (July through June motor fuel tax purchases) and refund claims must be made between July 1 and September 30 of the following fiscal year.

This proposal would change the refund claims to tax year (January through December) with claims to be made from January 15 through April 15 of the tax year following the year in which the motor fuel purchases were made. Table 1 shows the change in the refund due date depending on when the motor fuel is purchased.

Table 1: Timing of Refund Claims

Date of Purchase	Fuel Tax Rate	Current Refund Timing		Proposed Refund Timing	
		Date	Fiscal Year	Date	Fiscal Year
10/2021 - 12/2021	$0.025	7/2022 - 9/2022	FY 2024	7/2022 - 9/2022	FY 2024
1/2022 - 6/2022	$0.025	7/2022 - 9/2022	FY 2024	7/2022 - 9/2022	FY 2024
7/2022 - 12/2022	$0.050	7/2023 - 9/2023	FY 2025	1/2023 - 4/2023	FY 2024
1/2023 - 6/2023	$0.050	7/2023 - 9/2023	FY 2025	1/2024 - 4/2024	FY 2025
7/2023 - 12/2023	$0.075	7/2024 - 9/2024	FY 2026	1/2024 - 4/2024	FY 2025
1/2024 - 6/2024	$0.075	7/2024 - 9/2024	FY 2026	1/2025 - 4/2025	FY 2026
7/2024 - 12/2024	$0.100	7/2025 - 9/2025	FY 2026	1/2025 - 4/2025	FY 2026
1/2025 - 6/2025	$0.100	7/2025 - 9/2025	FY 2026	1/2026 - 4/2026	FY 2026
7/2025 - 12/2025	$0.125	7/2026 - 9/2026	FY 2027	1/2026 - 4/2026	FY 2026

1/2026 - 6/2026	$0.125	7/2026 - 9/2026	FY 2027	1/2027 - 4/2027	FY 2027
7/2026 - 12/2026	$0.125	7/2027 - 9/2027	FY 2028	1/2027 - 4/2027	FY 2027

B&P notes that this part of the proposal would not change the number of taxpayers that qualify for the motor fuel tax refund, only the timing of the refund claims. Therefore, this proposal will not result in additional gains or losses beyond those already estimated in the TAFP fiscal note for SB 262 (2021).

The first round of refund claims were received between July 2022 and September 2022. B&P notes that the $0.025 increase in the fuel tax during FY 2022 generated refund claims of $423,947. Using the number of gallons sold, B&P estimates that the additional tax generated $70,621,251 in additional motor fuel revenue. Therefore, B&P estimates that highway use refund claims were approximately 0.6% ($423,947 / $70,621,251) of the additional fuel tax revenue.

However, as the fuel tax increases over the remaining years, it is likely that fuel tax refunds will also increase. Therefore, based on this new information, B&P has updated the refund estimates for SB 262 (2021). B&P will show refund claims ranging between 0.6% and 15% of the additional revenue generated.

While this proposal will not increase the overall number of refunds, this proposal will have a cash flow impact in FY 2024 through FY 2026 for all state and local fuel tax funds by moving some motor fuel refund claims into an earlier fiscal year. Using updated refund estimates for SB 262 (2021), B&P estimates that this proposal could increase refunds by $702,893 to $17,563,213 in FY 2024, depending on the number of qualifying taxpayers that make refund claims. In FY 2025 and FY 2026, refund claims may increase by $234,298 to $5,854,404 each year. There will no longer be a cash flow impact by FY 2027. Table 2 shows the estimated impacts by fund.

Table 2: Estimated Cash Flow Impact from Refund Claim Due Date Timing

	FY 2024		FY 2025		FY 2026	
State Fund	**Low**	**High**	**Low**	**High**	**Low**	**High**
State Road Fund	($513,112)	($12,821,146)	($171,037)	($4,273,715)	($171,037)	($4,273,715)
Local Funds						
CART	($84,347)	($2,107,586)	($28,116)	($702,529)	($28,116)	($702,529)
Other	($105,434)	($2,634,482)	($35,145)	($878,161)	($35,145)	($878,161)

Total Local	($189,781)	($4,742,068)	($63,261)	($1,580,690)	($63,261)	($1,580,690)

Oversight assumes this part of the proposal will not increase or decrease revenue; rather, only the timing of the motor fuel tax refunds will change. Oversight will reflect the cash flow estimates as provided by DOR and B&P as the estimates have been updated to reflect the actual amount that was refunded (0.6%) in FY 2022. Oversight will range the cash flow impact as DOR and B&P have indicated (from a low of 0.6% (actual) to an estimated 15%. Oversight notes, once all of the tax increases have gone into effect, there will be no further fiscal impact due to cash flow changes.

<u>§§142.815, 142.822 & 142.824 Motor Fuel Refund Given to Charity and Information Required for a Refund</u>

Officials from the **Department of Revenue (DOR)** note currently, taxpayers who purchase motor fuel for non-highway use (farms, boats) are allowed to claim a refund of the motor fuel tax they pay.

The taxpayer submits their receipts to the Department showing the gallons purchased with a refund request form. Once processed, the Department sends the taxpayer a refund of their motor fuel tax paid.

Starting October 1, 2023, this provision will allow the non-highway use taxpayer to provide their receipts to a federally qualified tax exempt entity (charity) who would claim the refund on the taxpayer's behalf. This is established as a way of donating money for the taxpayer to the charity. This provision then allows the taxpayer to receive a subtraction against their Missouri adjusted gross income of the amount donated. This subtraction is only allowed if the taxpayer does not claim the refund amount as a charitable contribution on their federal income tax form.

In FY 2022 the Department processed $9,146,015 in non-highway refund claims. The motor fuel rate at the time started at $0.17 per gallon and then increased to $0.19 per gallon. DOR estimates that refund claims were made for 49,071,081 gallons.

SB 262 adopted in 2021, established an increasing motor fuel tax rate of $0.025 per year until the rate increases $0.12 per gallon for a total of $0.295 per gallon. Accounting for the SB 262 increases, DOR estimates the total non-highway use refund claims could total $14,468,143 by tax year 2026. The estimated amount of non-highway related motor fuel tax refunds through the implementation of SB 262 is:

Estimated Refunds by Year

Fiscal Year	Non-Highway Use Refunds
2023	$10,788,751

2024	$12,013,963
2025	$13,242,931
2026	$14,468,143
2027	$14,468,143

The Department is unable to determine how many of these taxpayers will choose to donate their receipts to a charity and then claim the deduction. For fiscal note purposes, DOR will show the loss up to the total amount estimated to be refunded.

The Department notes that deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, DOR will show the estimated impact to general revenue from the deduction throughout the implementation of SB 262 and with the individual income tax rate reductions scheduled under SB 3 (2022).

Estimated Revenue Loss by Fiscal Year

Tax Rate	**Tax Year (Fiscal Year)**				
	2023 (FY24)	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY 28)
4.95%	($534,043)	($594,691)	($655,525)	($716,173)	($716,173)
4.80%		($576,670)	($635,661)	($694,471)	($694,471)
4.70%			($622,418)	($680,003)	($680,003)
4.60%				($665,535)	($665,535)
4.50%					($651,066)

This is a new subtraction that would need to be added to the MO-A form. This would require computer programming changes, form changes and website changes. These changes are estimated to cost $7,193. Additionally, this could result in additional errors and correspondence generated. Should the number of errors and correspondent justify the additional FTE, the Department will seek the additional FTE through the appropriation process.

- 1 FTE Associate Customer Service Representative ($31,200) for every 14,700 errors created
- 1 FTE Associate Customer Service Representative for every 5,700 pieces of correspondence generated

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the programming and personnel 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. For fiscal note purposes, Oversight will assume 20% of these refunds will be donated. Therefore, Oversight will use 20% of DOR's estimates.

DOR notes Section 142.822 will allow a taxpayer who purchases motor fuel for use on the highway to donate their increased motor fuel tax receipts to a charity. However, they are not granted a deduction for doing so.

Since the fiscal note for SB 262 assumed all eligible taxpayers would receive a refund of the increased motor fuel rate, and this proposal just changes who claims the refund, this is not expected to result in any additional fiscal impact from who claims the refund.

However, a person who donates to a charity has the ability to claim a deduction on their federal and state tax returns. If this proposal encourages more people to claim the federal charity deduction that could lower their federal adjusted gross income that is reported on their Missouri tax return. That in turn could lower the amount of taxes DOR receives. <u>It is unknown how many people would do this. This could result in a $0 to Unknown loss.</u>

<u>*Section 142.822 Motor Fuel Refund*</u>
SB 262 adopted in 2021 established an increasing motor fuel tax rate over the next five years. As part of the increasing rate, a procedure was established that allowed taxpayers to receive a refund of the increased motor fuel amount if they did not wish their increased motor fuel tax they paid to go to road improvements. To receive the refund a taxpayer had to submit an application with certain required information.

The application required:
- The VIN number of the vehicle that bought the fuel
- Date of sale of the fuel
- Name and address of the purchaser of fuel
- Name and address of the seller of the fuel
- Number of gallons purchased
- Number of gallons purchased and charged Missouri fuel tax

These records were to be maintained a minimum of three years for the Department to be able to do audits if needed.

This proposal changes the required information needed for claiming a refund. It removes the date of sale and name and address of the seller as required information. It only requires that the total number of gallons purchased be submitted. And it also only requires records to be maintained if provided.

In SB 262 the Department noted by receiving the originally required data the Department would ensure that each purchase was made in Missouri and charged the appropriate motor fuel tax and be able to ensure the same gallons were not reported by more than one vehicle. The Department would be able to audit to ensure more refunds were not paid out than actually purchased.

The changes proposed in this bill may increase the original refund estimates. No longer requiring proof of the sale date, or the address of the seller, may allow taxpayers to report gallons purchased in other states in their total gallons purchased. This could result in additional refunds paid out than actual motor fuel tax received.

No longer requiring that taxpayers keep records, may result in the Department being unable to audit records to ensure the appropriate number of gallons were refunded.

The Department is unable to determine the potential increased refunds that could be paid out under this proposal. It is unknown but could be expected to exceed $100,000 annually.

In response to a similar proposal from 2023 (Perfected HB 519), officials from the **Office of Administration - Budget and Planning (B&P)** assumed Sections 142.815 and 142.824 would allow taxpayers to donate their motor fuel tax refund, for non-highway use, to a non-profit entity beginning October 2023. B&P notes that the information requirements are not changed under this proposal, only who would receive the refund.

Section 142.815 would grant taxpayers a deduction for any refund claims they donated to charity. B&P notes that such taxpayer would only be allowed to claim the deduction in this section if they did not take the charitable deduction on their itemized federal and state income tax returns.

In FY 2022, total non-highway use refund claims were $9,146,015. B&P notes that these refunds were granted both before and after the motor fuel tax increased from $0.17 to $0.195 per gallon. Using the distribution of gallons sold between the two tax rate periods, B&P estimates that refund claims were made for 49,071,081 gallons.

B&P notes that under SB 262 (2021), the motor fuel tax is scheduled to increase by $0.025 per year, for five years, until the total motor fuel tax is $0.295. Accounting for the increases scheduled to occur under SB 262 (2021), B&P estimates that total non-highway use refund claims could total $14,468,143 by fiscal year 2026. Table 1 shows the estimated amount of non-highway related motor fuel tax refunds through the implementation of SB 262 (2021).

Table 1: Estimated Refunds by Year

Fiscal Year	Non-Highway Use Refunds
2023	$10,788,751
2024	$12,013,963
2025	$13,242,931
2026	$14,468,143
2027	$14,468,143

B&P is unable to determine how many non-highway use refund claims may be donated to a non-profit entity. <u>Therefore, B&P will reflect the loss as "up to" the total amount claimed</u>.

B&P notes that deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from SB 3 (2022).

Therefore, B&P estimates that this proposal could reduce Total State Revenue (TSR) and General Revenue (GR) by up to $534,043 in FY 2024 (tax year 2023, top tax rate 4.95%). Once SB 3 (2022) and SB 262 (2021) fully implement, this proposal could reduce TSR and GR by up to $651,066 annually. Table 2 shows the estimated impact by top tax rate and year.

Table 2: Estimated Revenue Loss by Fiscal Year

Tax Rate	Tax Year (Fiscal Year)				
	2023 (FY24)	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY 28)
4.95%	($534,043)	($594,691)	($655,525)	($716,173)	($716,173)
4.80%		($576,670)	($635,661)	($694,471)	($694,471)
4.70%			($622,418)	($680,003)	($680,003)
4.60%				($665,535)	($665,535)
4.50%					($651,066)

<u>Section 142.822 – Increased Motor Fuel Tax Refund</u>

Section 142.822 would allow taxpayers to donate their motor fuel tax refund, for non-highway use, to a non-profit entity beginning October 2023. B&P notes that the information requirements are not changed under this proposal, only who would receive the refund. B&P further notes that taxpayers are not granted an additional income tax deduction for any refunds donated. However, individuals could claim the donated refunds on their itemized federal and state income tax returns, under the existing charitable contribution itemized deduction. In addition, it is unknown if the ability to donate the fuel tax refund would encourage more refund claims than what would have otherwise occurred.

Therefore, B&P estimates that this provision could have an unknown negative impact on TSR and GR through potential charitable itemized deductions. This provision could also reduce the State Road Fund, as well as local fuel tax funds, through increased motor fuel tax refund claims.

Information Required for Motor Fuel Tax Refund (Section 142.822)
This proposal removes certain requirements currently necessary in order to claim the additional motor fuel tax under 142.803.3. Taxpayers would no longer be required to provide the date of sale, seller's name and address, as well as each fuel tax receipt.

B&P notes that this proposal would essentially prohibit DOR from completing any motor fuel tax refunds under this section, as taxpayers would no longer be required to keep or provide supporting documentation.

B&P notes that the estimates provided for SB 262 (2021) included the possibility that 100% of qualifying purchases were refunded. Therefore, while this provision makes it easier to claim the motor fuel tax refunds, no additional revenue loss is expected beyond what B&P originally estimated.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DOR and B&P.

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

§142.822.10 - Mobile Application for Motor Fuel Tax Refunds

Officials from the **Department of Revenue (DOR)** assume this proposal requires the Department to create a mobile application that will allow claims to be submitted on a person's phone at the time of motor fuel purchase. This proposal requires that the person be able to demonstrate the purchase at the pump. This will require the Department to create a mobile application that can interact with the current motor fuel system.

This proposal states the development and maintenance of the application should be paid out the fuel tax road fund. The Constitution designates how that money may be spent and the Department is unable to determine if this would be an approved expense.

It should be noted that this does not require the Department to refund the payment at the time of submission. DOR assumes the database will hold the submissions and DOR will refund during the approved period.

The Department estimates this system would cost at least $500,000.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimate for the mobile application as provided by the DOR to the State Road Fund.

In response to a similar proposal from 2023 (Perfected HB 519), officials from the **Office of Administration - Budget and Planning (B&P)** assumed Section 142.822.10 requires DOR to develop a mobile application that allows users to submit a refund claim at the time of fuel purchase, rather than making an annual claim for all purchases at once. B&P notes that if refund claims are made at the time of purchase, rather than on an annual basis, this could result in a cash flow impact where refunds that would have been claimed in year 2 are now claimed in year 1.

While this provision will not increase the overall number of refunds, it could have a cash flow impact in FY 2024 through FY 2026 for all state and local fuel tax funds by moving some motor fuel refund claims into an earlier fiscal year. However, there will no longer be a cash flow impact by FY 2027, once SB 262 (2021) has fully implemented.

B&P defers to DOR for the costs to develop and maintain a mobile application.

<u>§144.822.4(2) - Income Tax Refund for Motor Fuel – Itemized Refund vs. Standard Refund</u>

Officials from the **Department of Revenue (DOR)** assume this proposal also adds a process by which a taxpayer can decide to file for a flat rate standard motor fuel refund amount rather than fill out the itemized refund form above. This standard refund would be claimed on their income tax return and would be subject to the following limits.

Standard Refund Amount

Tax Year	**Refund**
2023	$30
2024	$45
2025	$60

2026	$75

DOR records indicate that in tax year 2020, there were 3,250,763 Missouri individual income tax returns filed. Assuming that individuals who currently file the detailed refund form will continue to do so because of the size of their return exceeding the standard refund amount offered, DOR can assume there will be a potential 3,235,232 (3,250,763 income tax returns – 15,531 itemized returns) additional filers. This could result in the following estimated income tax claims per year.

Standard Income Tax Claims by Year

Tax Year	Fiscal Year	Refund Claim
2023	2024	$97,056,960
2024	2025	$145,585,440
2025	2026	$194,113,920
2026	2027	$242,642,400

This proposal in Section 142.822.5 requires both the itemized refund request and the standard refund request to be paid out of the money collected from the additional tax.

This proposal will require the Department to modify its MO-1040 and MO -1040P forms, website and individual income tax computer system. These changes are estimated to cost $7,193.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the 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.

In response to a similar proposal from 2023 (Perfected HB 519), officials from the **Office of Administration - Budget and Planning (B&P)** assumed this proposal would allow individuals to either claim an itemized (receipts required) or standard (no receipts required) motor fuel tax rebate refund. B&P notes that individuals cannot claim both and the total amount of refunds granted cannot exceed the amount of revenues generated under Section 142.803. In addition, all refund claims must be paid from the motor fuel tax fund that receives collections under Section 142.803.

<u>*Itemized Motor Fuel Refunds*</u>

This proposal would change the timing for motor fuel tax refund claims for the additional fuel tax passed in SB 262 (2021). Currently, motor fuel tax refund claims must be made on a fiscal year bases (July through June motor fuel tax purchases) and refund claims must be made between July1 and September 30 of the following fiscal year.

This proposal would change the refund claims to tax year (January through December) with claims to be made from January 15 through April 15 of the tax year following the year in which the motor fuel purchases were made. Table 1 shows the change in the refund due date depending on when the motor fuel is purchased.

Table 1: Timing of Refund Claims

Date of Purchase	Fuel Tax Rate	Current Refund Timing		Proposed Refund Timing	
		Date	Fiscal Year	Date	Fiscal Year
10/2021 - 12/2021	$0.025	7/2022 - 9/2022	FY 2023	7/2022 - 9/2022	FY 2023
1/2022 - 6/2022	$0.025	7/2022 - 9/2022	FY 2023	7/2022 - 9/2022	FY 2023
7/2022 - 12/2022	$0.050	7/2023 - 9/2023	FY 2024	1/2023 - 4/2023	FY 2024
1/2023 - 6/2023	$0.050	7/2023 - 9/2023	FY 2024	7/2023 - 9/2023	FY 2024
7/2023 - 12/2023	$0.075	7/2024 - 9/2024	FY 2025	1/2024 - 4/2024	FY 2024
1/2024 - 6/2024	$0.075	7/2024 - 9/2024	FY 2025	1/2025 - 4/2025	FY 2025
7/2024 - 12/2024	$0.100	7/2025 - 9/2025	FY 2026	1/2025 - 4/2025	FY 2025
1/2025 - 6/2025	$0.100	7/2025 - 9/2025	FY 2026	1/2026 - 4/2026	FY 2026
7/2025 - 12/2025	$0.125	7/2026 - 9/2026	FY 2027	1/2026 - 4/2026	FY 2026
1/2026 - 6/2026	$0.125	7/2026 - 9/2026	FY 2027	1/2027 - 4/2027	FY 2027

7/2026 - 12/2026	$0.125	7/2027 - 9/2027	FY 2028	1/2027 - 4/2027	FY 2027

B&P notes that this proposal would not change the number of taxpayers that qualify for the motor fuel tax refund, only the timing of the refund claims. Therefore, this proposal will not result in additional gains or losses beyond those already estimated in the TAFP fiscal note for SB 262 (2021).

The first round of refund claims were received between July 2023 and September 2023. B&P notes that the $0.025 increase in the fuel tax during FY22 generated refund claims of $423,947.

Using the number of gallons sold, B&P estimates that the additional tax generated $70,621,251 in additional motor fuel revenue. Therefore, B&P estimates that highway use refund claims were approximately 0.6% ($423,947 / $70,621,251) of the additional fuel tax revenue.

However, as the fuel tax increases over the remaining years, it is likely that fuel tax refunds will also increase. Therefore, based on this new information, B&P has updated the refund estimates for SB 262 (2021). B&P will show refund claims ranging between 0.6% and 15% of the additional revenue generated.

While this proposal will not increase the overall number of refunds, this proposal will have a cash flow impact in FY24 through FY26 for all state and local fuel tax funds by moving some motor fuel refund claims into an earlier fiscal year. Using updated refund estimates for SB 252 (2021), B&P estimates that this proposal could increase refunds by $702,893 to $17,563,213 in FY24, depending on the number of qualifying taxpayers that make refund claims. In FY25 and FY26, refund claim may increase by $234,298 to $5,854,404 each year. There will no longer be a cash flow impact by FY21. Table 2 shows the estimated impacts by fund.

Table 2: Estimated Cash Flow Impact from Refund Claim Due Date Timing

	FY 2024		**FY 2025**		**FY 2026**	
State Fund	**Low**	**High**	**Low**	**High**	**Low**	**High**
State Road Fund	($513,112)	($12,821,146)	($171,037)	($4,273,715)	($171,037)	($4,273,715)
Local Funds						
CART	($84,347)	($2,107,586)	($28,116)	($702,529)	($28,116)	($702,529)
Other	($105,434)	($2,634,482)	($35,145)	($878,161)	($35,145)	($878,161)
Total Local	($189,781)	($4,742,068)	($63,261)	($1,580,690)	($63,261)	($1,580,690)

Standard Income Tax Refunds

This proposal would allow taxpayers to take a standard refund, rather than the itemized receipt required rebate, beginning with tax year 2023. The standard refund would be claimed at the time an individual files their annual tax return. Table 3 shows the amounts of the standard refund by tax year.

Table 3: Standard Refund Amount

Tax Year	Refund
2023	$35
2024	$45
2025	$65
2026	$75

B&P notes that in tax year 2020, there were 3,250,763 Missouri individual income tax returns filed. Assuming that individuals who currently itemize their fuel tax returns continue to do so, B&P estimates that the standard refund may be claimed on 3,235,232 (3,250,763 income tax returns – 15,531 itemized returns). Table 4 shows the estimated income tax claims per year.

Table 4: Income Tax Claims by Year

Tax Year	Fiscal Year	Refund Claim
2023	2024	$113,233,120
2024	2025	$145,585,440
2025	2026	$210,290,080
2026	2027	$242,642,400

Summary

B&P estimates that this proposal could increase refunds from the State Road Fund by $83,173,290 to $95,481,323 in FY 2024, depending on the number of qualifying taxpayers that make refund claims. Once SB 262 (2021) fully implements, this proposal could increase refund claims from the State Road Fund by $65,513,448.

Table 5: Standard and Itemized Refund Impact

	FY 2024		FY 2025	
State Fund	**Low**	**High**	**Low**	**High**
State Road Fund				
Standard Refund	($82,660,178)		($106,277,371)	
Itemized Rebate	($513,112)	($12,821,146)	($171,037)	($4,273,715)
Total State Road Fund	($83,173,290)	($95,481,323)	($106,448,409)	($110,551,086)
Local Funds				
CART				
Standard Refund	($13,587,974)		($17,470,253)	
Itemized Rebate	($84,347)	($2,107,586)	($28,116)	($702,529)
Total CART	($13,672,322)	($15,695,560)	($17,498,369)	($18,172,781)
Other Fuel Funds				
Standard Refund	($16,984,968)		($21,837,816)	
Itemized Rebate	($105,434)	($2,634,482)	($35,145)	($878,161)
Total Other Local	($17,090,402)	($19,619,450)	($21,872,961)	($22,715,977)
Total Local	($30,762,724)	($35,315,010)	($39,371,329)	($40,888,758)

Table 5: Standard and Itemized Refund Impact

	FY 2026		FY 2027	
State Fund	**Low**	**High**	**Low**	**High**
State Road Fund				
Standard Refund	($153,511,758)		($177,128,952)	
Itemized Rebate	($171,037)	($4,273,715)	$0	$0
Total State Road Fund	($153,682,796)	($157,785,474)	($177,128,952)	($177,128,952)
Local Funds				
CART				
Standard Refund	($25,234,810)		($29,117,088)	
Itemized Rebate	($28,116)	($702,529)	$0	$0
Total CART	($25,262,925)	($25,937,338)	($29,117,088)	($29,117,088)
Other Fuel Funds				
Standard Refund	($31,543,512)		($36,396,360)	
Itemized Rebate	($35,145)	($878,161)	$0	$0
Total Other Local	($31,578,657)	($32,421,673)	($36,396,360)	($36,396,360)
Total Local	($56,841,582)	($58,359,011)	($65,513,448)	($65,513,448)

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DOR and B&P.

<u>§142.822.8 - Weight Restriction Removed</u>

Officials from the **Department of Revenue (DOR)** assume SB 262 contained a provision that would not allow a vehicle over 26,000 pounds to qualify for the refund. This proposal removes that restriction and would allow them to qualify for the refund of the increasing fuel tax rate.

To qualify, those vehicles over 26,000 pounds must provide documentation proving their motor vehicle is owned and licensed in Missouri by a corporation or sole proprietor and that the vehicle only operated in Missouri. Should it operate outside the state, the miles and fuel must be separated by what was used in Missouri and what was used outside Missouri.

This provision would become effective August 28, 2023, but due to the previous provision moving the refund filing period this will have a fiscal impact starting in FY 2024.

For the fiscal note of SB 262, the Department projected the motor fuel increase and the amount expected to be refunded if 15% of all taxpayers (low) applied for the refund and if 100% of the taxpayers (high) applied for the refund.

This range was based on a similar program in South Carolina that capped the number of participants at 15% and the total amount that could be claimed. DOR used information on the number of actual vehicles and their average miles driven to estimate the refund amount.

While the first year of the program did not find the 15% filing for the refund, changes in the economic conditions and the increasing amount of the tax, indicates more taxpayers may claim the refund in the future. Therefore, for the purpose of this fiscal note, DOR will continue to use that same 15%-100% participation. Additionally, these heavier vehicles tend to use more fuel, which may encourage more participation in the refund program.

Based on information from its Motor Vehicle Databases, DOR was able to determine there are approximately 1.2 million vehicles that were ineligible for the refund based on their vehicles weight. However, DOR was unable to determine how many of them would still not meet the requirements of this proposal. For fiscal note purposes, DOR will assume <u>all</u> meet the new requirements and DOR notes the impact will be less than projected should some vehicles still not qualify.

DOR's FY 2022 motor fuel collections show there were 4,323,936,974 gallons of gasoline and diesel purchased in FY 2022. Using these numbers, DOR was able to calculate newer revenues and potential refunds to SB 262. DOR was able to calculate the potential refunds by removing the current qualifying vehicles. These are the updated revenue and refund potential amounts.

Table 1: Estimated Additional Refunds

		FY 2024	FY 2025	FY 2026	FY 2027
Estimated Collections (prior FY)		$216,196,849	$324,295,273	$432,393,697	$540,492,122
Estimated Current 100% Potential Refunds	-	$156,117,452	$234,176,179	$312,234,905	$390,293,631
Remaining Collections (for non-qualifying MVs)		$60,079,396	$90,119,094	$120,158,792	$150,198,491
Estimated Low Additional Refund (15%)		($9,011,909)	($13,517,864)	($18,023,819)	($22,529,774)
Estimated High Additional Refund (100%)		($60,079,396)	($90,119,094)	($120,158,792)	($150,198,491)
Estimated Refunds for every 1% uptake		($600,794)	($901,191)	($1,201,588)	($1,501,985)
Estimated Refunds for every 5% uptake		($3,003,970)	($4,505,955)	($6,007,940)	($7,509,925)

This has the potential to increase the amount of the refunds each year.

Motor fuel tax is distributed 73% to the State Road Fund, 15% to the Counties and 12% to the Cities. If a refund is claimed, the refund is withheld from the distribution in the same percentage. Therefore the funds would be impacted as follows:

	FY 2024		FY 2025	
	Low	High	Low	High
Counties	($1,892,501)	($12,616,673)	($1,892,501)	($12,616,673)
Cities	($2,365,626)	($15,770,842)	($2,365,626)	($15,770,842)
Total Local	($4,258,127)	($28,387,515)	($4,258,127)	($28,387,515)
State Road Fund	($11,512,714)	($76,751,429)	($11,512,714)	($76,751,429)

	FY 2026		FY 2027	
	Low	High	Low	High
Counties	($2,433,216)	($16,221,437)	($2,703,573)	($18,023,819)
Cities	($3,041,519)	($20,276,796)	($3,379,466)	($22,529,774)
Total Local	($5,474,735)	($36,498,233)	($6,083,039)	($40,553,593)
State Road Fund	($14,802,061)	($98,680,408)	($16,446,735)	($109,644,898)

The Department already has the forms and processes set up to handle these refunds. No additional fiscal impact is expected.

Summary
This proposal will have the following revenue impact:

Consolidated Impact

	FY 2024		**FY 2025**	
State Fund	Low	High	Low	High
General Revenue				
Charity Deduction	($576,670)	($576,670)	($622,418)	($622,418)
Creation of the APP	($500,000)	($500,000)		
Total General Revenue	($1,076,670)	($1,076,670)	($622,418)	($622,418)
State Road Fund				
Standard Refund	($70,851,581)	($70,851,581)	($106,277,371)	($106,277,371)
Itemized Rebate	($513,112)	($12,821,146)	($171,037)	($4,273,715)
Weight Limit Removed	($11,512,714)	($76,751,429)	($11,512,714)	($76,751,429)
Total State Road Fund	($82,877,407)	($160,424,156)	($117,961,123)	($187,302,515)
Local Funds				
Counties				
Standard Refund	($11,646,835)	($11,646,835)	($17,470,253)	($17,470,253)
Itemized Rebate	($84,347)	($2,107,586)	($28,116)	($702,529)
Weight Limit Removed	($1,892,501)	($12,616,673)	($1,892,501)	($12,616,673)
Total Counties	($13,623,683)	($26,371,094)	($19,390,870)	($30,789,454)
Cities				
Standard Refund	($14,558,544)	($14,558,544)	($21,837,816)	($21,837,816)
Itemized Rebate	($105,434)	($2,634,482)	($35,145)	($878,161)
Weight Limit Removed	($2,365,626)	($15,770,842)	($2,365,626)	($15,770,842)
Total Cities	($17,029,604)	($32,963,868)	($24,238,587)	($38,486,819)

Total Local	($30,653,287)	($59,334,962)	($43,629,456)	($69,276,273)

Consolidated Impact

	FY 2026		FY 2027	
State Fund	Low	High	Low	High
General Revenue				
Charity Deduction	($665,535)	($665,535)	($651,066)	($651,066)
Total General Revenue	($665,535)	($665,535)	($651,066)	($651,066)
State Road Fund				
Standard Refund	($141,703,162)	($141,703,162)	($177,128,952)	($177,128,952)
Itemized Rebate	($171,037)	($4,273,715)	$0	$0
Weight Limit Removed	($14,802,061)	($98,680,408)	($16,446,735)	($109,644,898)
Total State Road Fund	($156,676,260)	($244,657,285)	($193,575,687)	($286,773,850)
Local Funds				
Counties				
Standard Refund	($23,293,670)	($23,293,670)	($29,117,088)	($29,117,088)
Itemized Rebate	($28,116)	($702,529)	$0	$0
Weight Limit Removed	($2,433,216)	($16,221,437)	($2,703,573)	($18,023,819)
Total Counties	($25,755,002)	($40,217,636)	($31,820,661)	($47,140,907)
Cities				
Standard Refund	($29,117,088)	($29,117,088)	($36,396,360)	($36,396,360)
Itemized Rebate	($35,145)	($878,161)	$0	$0
Weight Limit Removed	($3,041,519)	($20,276,796)	($3,379,466)	($22,529,774)
Total Cities	($32,193,752)	($50,272,045)	($39,775,826)	($58,926,134)

Total Local	($57,948,754)	($90,489,681)	($71,596,487)	($106,067,041)

In response to a similar proposal from 2023 (Perfected HB 519), officials from the **Office of Administration - Budget and Planning (B&P)** assumed this proposal would allow motor fuel tax refund claims on fuel purchased for vehicles heavier than 26,000 pounds, if such vehicles are owned by a corporation or sole proprietorship located in Missouri. B&P notes that the language specifically lists corporations and sole proprietors; therefore, it is unclear whether other pass-through entities such as partnerships or LLCs would also qualify under this provision.

B&P notes that this proposal would become effective August 28, 2023, which is during the motor fuel refund request window of July 1, 2023 through September 30, 2023 for fuel tax purchases between July 2022 and June 2023. For the purpose of this fiscal note, B&P will assume that refund claims will increase from the repeal of Section 142.822.6 during the FY 2024 refund claim period. However, B&P acknowledges that not all newly qualifying taxpayers would have kept their fuel receipts because they do not qualify under current law.

B&P further notes that for the TAFP SB 262 (2021) fiscal note, B&P assumed that the amount of refunds would range between 15% and 100% of all qualified taxpayers, whose vehicles weighed less than 26,000 pounds. Therefore, under this proposal, B&P assumes that refund claims will still range between 15% and 100%; however, the number of qualifying vehicles would increase with the removal of the weight limit. In addition, B&P notes that heavier vehicles tend to use more motor fuel than lighter vehicles, which may incentivize a higher uptake in refund claims.

Using FY 2022 motor fuel tax collections, B&P estimates that there were 4,323,936,974 gallons of gasoline and diesel purchased during FY 2022. B&P then updated the TAFP SB 262 (2021) fiscal estimates for both revenues and potential refunds, under current law, using the newer gallons sold data. B&P then determined the amount of refunds that could remain after accounting for all currently qualifying vehicles. Table 1 shows the updated revenue and refund estimates.

Table 1: Estimated Additional Refunds

		FY 2024	FY 2025	FY 2026	FY 2027
Estimated Collections (prior FY)		$216,196,849	$324,295,273	$432,393,697	$540,492,122
Estimated Current 100% Potential Refunds	-	$156,117,452	$234,176,179	$312,234,905	$390,293,631
Remaining Collections (for non-qualifying MVs)		$60,079,396	$90,119,094	$120,158,792	$150,198,491
Estimated Low Additional Refund (15%)		($9,011,909)	($13,517,864)	($18,023,819)	($22,529,774)
Estimated High Additional Refund (100%)		($60,079,396)	($90,119,094)	($120,158,792)	($150,198,491)
Estimated Refunds for every 1% uptake		($600,794)	($901,191)	($1,201,588)	($1,501,985)
Estimated Refunds for every 5% uptake		($3,003,970)	($4,505,955)	($6,007,940)	($7,509,925)

Therefore, B&P estimates that this proposal could increase motor fuel tax refunds by up to $9.0 million to $60.1 million in FY 2024. Once fully implemented, this proposal could increase motor fuel tax refunds by up to $22.5 million to $150.2 million annually.

However, as noted before, it is unknown how many additional refund claims will be made. B&P estimates that every 5% increase in refund claims could increase refund amounts by $7.5 million once fully implemented.

B&P notes that motor fuel tax collections are distributed 73% to the State Road Fund, 12% to the County Aid Road Trust Fund, 15% to other local funds. Therefore, B&P estimates that this proposal could reduce revenues to the State Road Fund by up to $6.6 million to $43.9 million and local revenues by up to $2.4 million to $16.2 million in FY 2024. Once TAFP SB 262 (2021) has fully implemented, this proposal could reduce revenues to the State Road Fund by up to $22.5 million to $150.2 million and local revenues by $6.1 million to up to $40.6 million annually. Table 2 shows the estimated impact by fund.

Table 2: Estimated Impact By Fund

	FY 2024		FY 2025	
State Fund	Low (15%)	High (100%)	Low (15%)	High (100%)
State Road Fund	($6,578,694)	($43,857,959)	($9,868,041)	($65,786,939)
Local Funds				
CART	($1,081,429)	($7,209,528)	($1,622,144)	($10,814,291)
Other	($1,351,786)	($9,011,909)	($2,027,680)	($13,517,864)
Total Local	($2,433,215)	($16,221,437)	($3,649,824)	($24,332,155)

Table 2 (cont.): Estimated Impact By Fund

	FY 2026		FY 2027	
State Fund	Low (15%)	High (100%)	Low (15%)	High (100%)
State Road Fund	($13,157,388)	($87,715,919)	($16,446,735)	($109,644,898)
Local Funds				
CART	($2,162,858)	($14,419,055)	($2,703,573)	($18,023,819)
Other	($2,703,573)	($18,023,819)	($3,379,466)	($22,529,774)
Total Local	($4,866,431)	($32,442,874)	($6,083,039)	($40,553,593)

Bill Summary
B&P estimates that this proposal could decrease state revenues by $95,220,047 to $172,766,796 and local funds by $35,020,850 to $63,702,525 in FY 2024. Once SB 3(2022) and all other provisions have implemented, this proposal may decrease state revenues by $194,226,753 to $287,424,916 and local revenues by $71,596,487 to $106,067,041. Table 1 shows the estimated impact by fiscal year.

Table 1: Estimated Summary Impact

	FY 2024		FY 2025		FY 2026	
State Fund	**Low**	**High**	**Low**	**High**	**Low**	**High**
General Revenue - Donations	($534,043)		($576,670)		($635,661)	
State Road Fund						
Standard Refund	($82,660,178)		($106,277,371)		($153,511,758)	
Itemized Rebate	($513,112)	($12,821,146)	($171,037)	($4,273,715)	($171,037)	($4,273,715)
Weight Limit + Timing	($11,512,714)	($76,751,429)	($11,512,714)	($76,751,429)	($14,802,061)	($98,680,408)
Total State Road Fund	($94,686,004)	($172,232,753)	($117,961,122)	($187,302,515)	($168,484,856)	($256,465,881)
Total State Impact	**($95,220,047)**	**($172,766,796)**	**($118,537,792)**	**($187,879,185)**	**($169,120,517)**	**($257,101,542)**
Local Funds						
CART						
Standard Refund	($13,587,974)		($17,470,253)		($25,234,810)	
Itemized Rebate	($84,347)	($2,107,586)	($28,116)	($702,529)	($28,116)	($702,529)
Weight Limit + Timing	($1,892,501)	($12,616,673)	($1,892,501)	($12,616,673)	($2,433,216)	($16,221,437)
Total CART	($15,564,822)	($28,312,233)	($19,390,870)	($30,789,455)	($27,696,142)	($42,158,776)
Other						
Standard Refund	($16,984,968)		($21,837,816)		($31,543,512)	
Itemized Rebate	($105,434)	($2,634,482)	($35,145)	($878,161)	($35,145)	($878,161)
Weight Limit + Timing	($2,365,626)	($15,770,842)	($2,365,626)	($15,770,842)	($3,041,519)	($20,276,796)
Total Other	($19,456,028)	($35,390,292)	($24,238,587)	($38,486,819)	($34,620,176)	($52,698,469)
Total Local	**($35,020,850)**	**($63,702,525)**	**($43,629,456)**	**($69,276,273)**	**($62,316,317)**	**($94,857,244)**

Table 1: Estimated Summary Impact

	FY 2027		FY 2028		FY 2029	
State Fund	**Low**	**High**	**Low**	**High**	**Low**	**High**
General Revenue - Donations	($680,003)		($665,535)		($651,066)	
State Road Fund						
Standard Refund	($177,128,952)		($177,128,952)		($177,128,952)	
Itemized Rebate	$0	$0	$0	$0	$0	$0
Weight Limit + Timing	($16,446,735)	($109,644,898)	($16,446,735)	($109,644,898)	($16,446,735)	($109,644,898)
Total State Road Fund	($193,575,687)	($286,773,850)	($193,575,687)	($286,773,850)	($193,575,687)	($286,773,850)
Total State Impact	**($194,255,690)**	**($287,453,853)**	**($194,241,222)**	**($287,439,385)**	**($194,226,753)**	**($287,424,916)**
Local Funds						
CART						
Standard Refund	($29,117,088)		($29,117,088)		($29,117,088)	
Itemized Rebate	$0	$0	$0	$0	$0	$0
Weight Limit + Timing	($2,703,573)	($18,023,819)	($2,703,573)	($18,023,819)	($2,703,573)	($18,023,819)
Total CART	($31,820,661)	($47,140,907)	($31,820,661)	($47,140,907)	($31,820,661)	($47,140,907)
Other						
Standard Refund	($36,396,360)		($36,396,360)		($36,396,360)	
Itemized Rebate	$0	$0	$0	$0	$0	$0
Weight Limit + Timing	($3,379,466)	($22,529,774)	($3,379,466)	($22,529,774)	($3,379,466)	($22,529,774)
Total Other	($39,775,826)	($58,926,134)	($39,775,826)	($58,926,134)	($39,775,826)	($58,926,134)
Total Local	**($71,596,487)**	**($106,067,041)**	**($71,596,487)**	**($106,067,041)**	**($71,596,487)**	**($106,067,041)**

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by DOR and B&P.

In response to a similar proposal from 2023 (Perfected HB 519), officials from the **Missouri Department of Transportation (MODOT)** assumed the expansion of the motor fuel tax refund to motor vehicles that exceed 26,000 pounds would create an unknown negative fiscal impact if Missouri-based motor carriers licensed under the International Fuel Tax Agreement (IFTA) are included.

IFTA takes into account both gallons purchased, and gallons consumed within the state when determining a motor carrier's fuel tax owed. It is unclear if the language "delivered into a motor vehicle" is intended to apply to fuel purchased in Missouri, consumed in Missouri, or both.

Because IFTA is administered by MoDOT's Motor Carrier Services Division and other refunds are issued by the Department of Revenue, refunds could be issued more than once. The easing of reporting information for a refund would not satisfy the audit requirements for IFTA.

Allowing only Missouri-based carriers to be eligible for refunds for motor vehicles over 26,000 pounds may create an unfair interstate commerce practice.

MoDOT defers to DOR for the fiscal impacted expected from motor fuel tax refunds.

<u>§143.011 - Individual Income Tax Rate Reduction</u>

Officials from the **Department of Revenue (DOR)** note the current individual income tax rate for tax year 2023 is 4.95% per SB 3 (2022) and is projected to be 4.8% for tax years 2024 & 2025. Per SB 3, the individual income tax rate is then scheduled to drop over a period of years to 4.5% based on certain state revenue growth. The Department is unable to determine when these scheduled drops in the rate will actually occur, but for fiscal note purposes only, DOR will assume they will drop over the next consecutive years.

This provision changes the rate for tax year 2024 to 4.5% and then allows the rest of the SB 3 rate reductions to continue for tax year 2024 and beyond. Therefore, the current and proposed rates are:

Current and Proposed Income Tax Rates

Tax Year	Current (assumed) Rate	Proposed Rate
2024	4.8%	4.35% (4.5% - .15%)
2025	4.8%	4.35%
2026	4.7%	4.25%
2027	4.6%	4.15%
2028+	4.5%	4.05%

The Department used its internal Income Tax Model that contains confidential taxpayer data to estimate the fiscal impact. The model calculates the calendar/tax year impact, then converts the data to fiscal year using a 42% in the first year and 58% in the second year split for conversion. The loss to General Revenue is projected as follows:

By Tax Year

Tax Year	Loss To General Revenue
2024	($505,699,033)
2025	($503,748,664)
2026	($507,041,169)
2027	($508,067,496)
2028	($508,814,511)

By Fiscal Year

Fiscal Year	Loss to General Revenue
2024	($211,574,439)
2025	($504,879,878)
2026	($505,131,516)
2027	($507,472,226)
2028	($508,381,243)
2029	($508,814,511)

This provision will require modification to the MO-1040 form and to the MO-1040P form. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

In response to a similar proposal from 2023 (HCS for SS for SCS for SB 133), officials from the **Office of Administration - Budget and Planning (B&P)** noted this proposal would reduce the top income tax rate to 4.5% starting tax year 2024. B&P notes that this proposal retains the income tax reductions that are scheduled to occur under current law.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY23, FY25, FY26, and FY27 will reach the SB 3 (2022) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced in tax years 2024 (0.15%), 2026 (0.1%), 2027 (0.1%), and 2028 (0.1%) under SB 3 (2022). Table 1 shows the current versus proposed individual income tax.

Table 1: Current Top Tax Rate vs Proposed Rate

Tax Year	Current	Proposed
2023	4.95%	N/A
2024	4.80%	4.35%
2025	4.80%	4.35%
2026	4.70%	4.25%
2027	4.60%	4.15%
2028	4.50%	4.05%

**Assumes SB 3 (2022) reductions are triggered for tax years: 2024, 2026, 2027, and 2028.*

Using tax year 2020 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 3 (2022), B&P estimates that this section may reduce tax collections by $514.7M for calendar year 2024. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $517.9M annually. Table 2 shows the assumed top tax rates and estimate impact by calendar year.

Table 2: Impact by Tax Year

Tax Year	GR Impact
2024	($514,725,108)
2025	($512,772,465)
2026	($516,077,095)
2027	($517,108,521)
2028	($517,857,688)

However, because this proposal would take effect January 1, 2024 individuals will adjust their withholdings and declarations during FY24. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision will reduce TSR and GR by $216.2M in FY24. Once SB 3 (2022) has been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by $517.9M. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Impact by Fiscal Year

Fiscal Year	**GR Impact**
2024	($216,184,545)
2025	($513,904,998)
2026	($514,160,410)
2027	($516,510,294)
2028	($517,423,171)
2029	($517,857,688)

§143.071 – Corporate Income Tax

In response to a similar proposal from 2023 (HCS for SS for SCS for SB 133), officials from the **Office of Administration - Budget and Planning (B&P)** noted Section 143.071.4 will reduce the corporate income tax 2%, starting with tax year 2024.

Section 143.071.5 would reduce the corporate income tax rate by an additional 1%, when net corporate income tax collections exceed the amount of net corporate income tax collections in FY25. B&P notes that because the rate reduction could not start until the calendar year after the trigger was met, tax year 2027 (FY26 vs FY25 corporate revenues) is the first possible year for the reduced rate. For the purpose of this fiscal note, B&P will assume the reduction is triggered for tax year 2027.

Section 143.071.6 would allow an additional 1% reduction, taking the corporate tax rate to 0%, beginning as early as the year after a reduction is triggered under subsection 5. In order for the additional rate reduction to occur, net GR in the immediately preceding fiscal year must exceed the net GR in the fiscal year in which the tax reduction under subsection 5 is triggered, by at least $250 million. For the purpose of this fiscal note, B&P will assume that the additional rate reduction occurs as early as tax year 2028.

Table 4 shows the proposed corporate tax rates.

Table 4: Proposed Corporate Tax Rate

Tax Year	Current	Proposed
2023	4.00%	N/A
2024	4.00%	2.00%
2025	4.00%	2.00%
2026	4.00%	2.00%
2027	4.00%	1.00%
2028	4.00%	0.00%

*Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

B&P notes that under Section 148.720, RSMo, the financial institutions tax (formerly known as the bank franchise taxes) (Sections 148.030, 148.140, and 148.620, RSMo.) shall be reduced by a proportional amount to any reduction in the corporate income tax. However, **Section 143.071.8(2)** states that the proposed tax rate reductions and elimination under Section 143.071 shall not impact the financial institutions tax.

In FY 2022, net corporate tax collections were $711,062,676 at a tax rate of 4.0%.

B&P estimates that reducing the corporate income tax could reduce GR by $355.5 million beginning with tax year 2024. Once fully implemented, B&P estimates this provision could reduce corporate income tax collections by $711.0 million annually. Table 5 shows the estimated impact by tax year.

Table 5: Estimated Impact by Tax Year

Tax Year	GR Impact
2024	($355,531,338)
2025	($355,531,338)
2026	($355,531,338)
2027	($533,297,007)
2028	($711,062,676)

* Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

However, because this proposal would take effect January 1, corporations would adjust their declarations payments during FY24. Based on historic remittance patterns, B&P notes that corporate income tax collections are split approximately 50/50 between fiscal years. Table 6 shows the estimate impact on general revenue by fiscal year.

Table 6: Corporate Income Tax Reduction by Fiscal Year

Fiscal Year	GR Impact
FY24	($177,765,669)
FY25	($355,531,338)
FY26	($355,531,338)
FY27	($444,414,173)
FY28	($622,179,842)
FY29	($711,062,676)

* Assume Section 143.071.5 triggered for tax year 2027. Assumes Section 143.071.6 triggered for tax year 2028.

Therefore, B&P estimates that this proposal could reduce TSR and GR by $177.8 million in FY 2024. Once fully implemented, this proposal could reduce TSR and GR by $711.0 million annually.

B&P notes that Section 143.071.8(1) would prevent the use of corporate tax income tax credits once the corporate income tax has been eliminated. B&P notes that the average amount of tax credits taken against corporate income tax was $92,343,664 from FY 2020 – FY 2022. However, B&P also notes that corporations could still sell or transfer tax credits. B&P further assumes that this would not impact withholding retention tax credits as they are not taken against corporate income tax, but are instead a retention of employee's individual income tax.

In addition, the use of net collections to estimate the potential impact from this proposal already includes the potential that corporate tax credits would no longer be redeemed. Therefore, removing the $92.3 million in corporate tax credits from the estimated impact would double count the potential revenue gain.

Officials from the **Department of Revenue (DOR)** note the current corporate tax rate is 4% a year. The FY 2022 net collections were $711.1 million. Starting January 1, 2024 this proposal will reduce the corporate tax rate to 2% for tax year 2024. Since this proposal is effective January 1, 2024 it is assumed only 6 months of collections will be impacted in FY 2024.

Then starting in tax year 2026, this proposal provides that another 1% reduction can occur if the amount of revenue received in FY 2025- 2026 exceeds the FY 2024-2025 collections by $50 million. If it does, the 1% rate reduction will occur starting the following tax year. Therefore, the earliest this reduction could occur is tax year 2027.

Additionally in Section 143.071.6, this proposal establishes a procedure by which the corporate tax rate could be reduced to zero. It says that if the FY 2028 net general revenue collections are greater than $250 million over the FY 2027 net general revenue collections then the corporate rate will be reduced to zero. At this time, the Department is unable to predict if reducing the corporate rate to 1% would increase revenue by the $250 million for the trigger.

This provision then allows a final reduction to 0% if it meets the $250 million trigger. This will result in a loss to general revenue.

Corporate Rate Reduction	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
	($177,765,669)	($355,531,338)	(355,531,338)	($444,414,173)	($533,297,007)	($711,062,676)

This provision in Section 143.071.8(1) states that upon the corporate tax rate being eliminated, corporations would no longer be allowed to claim tax credits. Many of the state tax credits are allowed to be sold, transferred and assigned and it is assumed corporations would continue that practice. Additionally some companies may choose to no longer participate in tax credit programs, freeing up credits for other organizations to claim.

Per Section 148.720 whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. However, section 143.071.8(2) states this proposal will not cause a reduction or elimination of the financial institutions tax under Chapter 148. Therefore this provision will not have a fiscal impact.

This provision will result in changes needing to be made to their computer programs and forms. These changes are estimated at $7,193.

§143.125 – Social Security Retirement Income

In response to a similar proposal from 2023 (HCS for SS for SCS for SB 133), officials from the **Office of Administration - Budget and Planning (B&P)** noted this section would eliminate the income limits for the individual income tax exemption for social security payments beginning with tax year 2024. Currently taxpayers who are married filing joint may exempt 100% of their social security income, if their Missouri Adjusted Gross Income (MAGI) equal to or less than $100,000. All other taxpayers may exempt 100% of social security income if their MAGI is equal to or less than $85,000.

This proposal would allow all taxpayers, regardless of income, to subtract up to the maximum social security benefit. To prevent double counting the potential revenue impact, B&P will reflect the potential impact under the proposed income tax brackets found in Section 143.011.

Based on data published by the IRS, B&P estimates that this section may exempt $689,197,344 in social security payments for taxpayers filing single, $172,665,756 for taxpayers filing head of household, and $2,353,388,312 for married filing joint taxpayers; for a total of $3,215,251,412 in income exempted under this section.

However, exemptions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from this proposal and SB 3 (2022).

B&P estimates that this section could reduce TSR and GR by $144,686,314 (top tax rate 4.5%) or by $139,863,436 (top tax rate 4.35%) in FY25. Once this proposal and SB 3 (2022) have fully implemented, this section could reduce TSR and GR by $130,217,682 annually.

Table 7: Social Security Subtraction by Fiscal Year

	Tax Year (Fiscal Year)			
Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.50%	($144,686,314)	($144,686,314)	($144,686,314)	($144,686,314)
4.35%	($139,863,436)	($139,863,436)	($139,863,436)	($139,863,436)
4.25%		($136,648,185)	($136,648,185)	($136,648,185)
4.15%			($133,432,934)	($133,432,934)
4.05%				($130,217,682)

Officials from the **Department of Revenue (DOR)** note this provision is changing the taxability of social security payments. Some social security benefits are taxable depending on the amount of income a person has at the federal level, while other amounts are not. Generally, at the federal level if a taxpayer's income is under $25,000 and they file as an individual or $35,000 if they file a combined return, the social security benefits are not taxable. For any income over those amounts then social security benefits are taxable and the taxable portion is calculated into the taxpayer's federal adjusted gross income (FAGI).

Under Missouri law, if social security benefits are included in a taxpayer's FAGI, and the taxpayer's MAGI is over $85,000 for an individual or $100,000 for those that file combined, their social security is taxable in Missouri. If a taxpayers has a MAGI of less than $85,000 for an individual or $100,000 for those filing combined, then they are allowed to deduction up to the social security maximum from their Missouri taxable income.

The maximum social security benefits a person receives is based on when they start to take the social security benefits and how much they paid into the system through the years. A person can take early social security benefits at 62 receiving a lesser amount of benefits. Social security benefits are considered full benefits starting at age 67, based on the year of a person's birth. The maximum social security benefits are given when a person does not take social security until they reach 70. The maximum social security benefit for 2023 is $43,524. It should be noted that social security annually adjusts the benefit numbers.

This provision starting January 1, 2024, will remove the MAGI limitation determining the taxable portion of social security. If a taxpayer included any portion of their social security benefits into their FAGI they will be allowed a deduction from their Missouri return up to the $43,524 limit of what they claimed in the FAGI.

While currently SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023 with the rate scheduled to continue to reduce over a period of several year, this bill is changing those rates. For fiscal note purposes, DOR will show the loss at each of this year's individual income tax rates for the implementation period. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

Estimated Loss of Social Security Benefits					
Retirement Income	4.50%	4.35%	4.25%	4.15%	4.05%
Social Security	($144,686,314)	($139,863,436)	($136,648,185)	($133,432,934)	($130,217,682)

Therefore it could result in a loss to general revenue.

Table 2: Estimated Loss by Fiscal Year of Social Security Benefits

	Tax Year (Fiscal Year)			
Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.50%	($144,686,314)	($144,686,314)	($144,686,314)	($144,686,314)
4.35%	($139,863,436)	($139,863,436)	($139,863,436)	($139,863,436)
4.25%		($136,648,185)	($136,648,185)	($136,648,185)
4.15%			($133,432,934)	($133,432,934)
4.05%				($130,217,682)

This provision will require modification to the MO-1040, MO-A and the MO-1040P forms. Additionally DOR will need to modify their website and their individual income tax computer system. These changes are estimated to cost $7,193.

At this time, the Department believes it can handle this work with existing resources. However, should DOR reach the number of errors or correspondence to justify additional FTE from this proposal or in combination with other proposals that will pass, DOR will seek the required number of FTE through the appropriation process. The Department is providing the number of errors or correspondence that require additional FTE.

1 FTE Associate Customer Service Rep for every 14,700 errors created
1 FTE Associate Customer Service Rep for every 5,700 pieces of correspondence generated

§§144.020 & 144.070 – Motor Vehicle Dealers to Remit Sales Tax

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

§144.070.11
As soon as the Department's Motor Vehicle and Driver Licensing System integration and modernization is completed, this provision requires all Missouri licensed dealers to collect and remit the sales tax on all motor vehicles that the dealer sells. When collecting and with timely remittance the dealer gets to keep two percent of taxes collected.

Administrative Impact

Motor Vehicle Bureau
The implementation of this legislation will be coordinated with the integration of the Department's Motor Vehicle and Driver Licensing software system approved and passed by the General Assembly in 2020 (Senate Bill 176). Dealers collecting tax is a part of the new system requirements. The administrative impact for this bill is inclusive within the Department's development and implementation of the new system.

Compliance and Investigations Bureau (CIB)
The proposal will have an impact on CIB as well. If dealers are collecting and remitting sales tax, this will increase the responsibilities of CIB to ensure appropriate tax collection. Additional resources will be requested through the appropriations process, if needed.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the 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.

Revenue Impact

DOR notes the following estimates have been made using data from FY 2022 state and local 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 sold by dealers in FY 2022
= $417,111,230 x 2% = **$8,342,225** - Estimated Loss in MV State Sales Tax

Total amount of **local** sales tax collected for motor vehicles sold by dealers in FY 2022
= $340,659,669 x 2% = **$6,813,193** - Estimated Loss MV Local Sales/Use Tax

Estimated loss of revenue annually = $15,155,418 ($757,770,899 x 2%)

This would be a decrease to state, city, and county funds

Dealers collecting sales tax at the time of purchase should result in an unknown increase in Motor Vehicle sales tax collections. This increase should mitigate/offset the loss in sales tax collections resulting from the 2% collection fee dealers will be able to retain.

	FY 2024 (6 months)	FY 2025	FY 2026
Conservation	($123,406)	($246,811)	($246,811)
Parks, Soils & Water	($98,725)	($197,449)	($197,449)
School District Trust Fund	($493,623)	($987,246)	($987,246)
State Road Bond Fund	($1,480,868)	($2,961,737)	($2,961,737)
State Road Fund	($1,480,868)	($2,961,737)	($2,961,737)
Locals	($493,623)	($987,245)	($987,245)
Total	**($4,171,113)**	**($8,342,225)**	**($8,342,225)**

In response to a similar proposal from 2023 (SCS for HB 415), officials from the **Office of Administration - Budget and Planning (B&P)** assumed the following regarding this proposal:

Section 144.070
This proposal would require motor vehicle dealers to collect and remit sales taxes, rather than applying the sales tax to the purchaser at the time of titling a vehicle. Motor vehicle dealers are to begin collecting and remitting the sales tax after the development of DOR's integrated motor vehicle system.

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 2022, state 3% MV sales tax collections were $365,264,400. Based on the 3% amount, B&P estimates that total taxable sales were $12,175,480,006. Therefore, B&P estimates that granting the 2% timely filing discount to MV dealers would reduce state tax collections by up to $9,070,733 (includes state sales tax minus FLOYD distributions) annually. In addition, B&P estimates that this would reduce local sales tax collections by up to $11,128,389 (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

	FY 2024		FY 2025		FY 2026+	
State Funds						
Education	$0 or Up to	($1,014,623)	$0 or Up to	($1,217,548)	Up to	($1,217,548)
Conservation	$0 or Up to	($253,656)	$0 or Up to	($304,387)	Up to	($304,387)
DNR	$0 or Up to	($202,925)	$0 or Up to	($243,510)	Up to	($243,510)
State Road Bond Fund	$0 or Up to	($3,043,870)	$0 or Up to	($3,652,644)	Up to	($3,652,644)
State Road Fund	$0 or Up to	($2,962,700)	$0 or Up to	($3,555,240)	Up to	($3,555,240)
State Transportation Fund	$0 or Up to	($81,170)	$0 or Up to	($97,404)	Up to	($97,404)
Loss to All State Funds	$0 or Up to	($7,558,944)	$0 or Up to	($9,070,733)	Up to	($9,070,733)
Local Funds						
Fuel Local Deposit (FLOYD)	$0 or Up to	($1,014,623)	$0 or Up to	($1,217,548)	Up to	($1,217,548)
Sales Tax	$0 or Up to	($8,259,034)	$0 or Up to	($9,910,841)	Up to	($9,910,841)
Loss to All Local Funds	$0 or Up to	($9,273,657)	$0 or Up to	($11,128,389)	Up to	($11,128,389)

Oversight does not have information to the contrary and therefore, Oversight will reflect the revenue loss estimates as provided by B&P. In addition, Oversight will reflect an "Unknown" increase in revenue as indicated by DOR for the potential increase in sales tax collections due to motor vehicle dealers having the ability to collect the sales tax at the time of sale – if those sales taxes would not have otherwise been collected.

Oversight notes, DOR has indicated that the average estimated time to implement the new integrated system is between three and five years; therefore, Oversight will reflect the fiscal impact as $0 (new system has not been implemented yet) up to the estimates indicated by B&P (new system has been implemented).

In response to a similar proposal from 2023 (SCS for HB 415), 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.

In response to a similar proposal from 2023 (SCS for HB 415), officials from the **Missouri Department of Transportation** deferred to the DOR for the potential fiscal impact of this proposal.

§§407.812 & 407.828 – Motor Vehicle Franchise Practices Act

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

Administrative Impact

To implement the proposed legislation, the Department will be required to:

• Update the Missouri titling manual;
• Make changes to procedures, correspondence letters, forms, and the Department website;
• Provide License Offices and stakeholders these changes as applicable; and
• Train staff

FY 2024- Motor Vehicle Bureau
Associate Research/Data Analyst 40 Hrs @ $19.90 = $796
Lead Admin Assistant 20 Hrs @ $17.05 = $341
Administrative manager 5 Hrs @ $26.96 = $135

FY 2024 Strategy and Communications Office
Associate Research/Data Analyst 10 Hrs @ $19.90 = $199

Total Cost =$1,471

The Department anticipates absorbing these costs and that there will be Minimal Impact. If multiple bills are passed that require department resources, FTE may be requested through the appropriations process.

Oversight assumes DOR will use existing staff and will not hire additional FTE to conduct these activities; therefore, Oversight will not reflect the administrative costs DOR has indicated on the fiscal note.

In response to a similar proposal from 2023 (Perfected SS for SCS for SB 398), officials from the **Attorney General's Office** assumed the proposal would 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.

In response to a similar proposal from 2023 (Perfected SS for SCS for SB 398), officials from the **Office of Administration** assumed the proposal would 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.

<u>Rule Promulgation</u>

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other county officials 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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
GENERAL REVENUE FUND				
Costs – State Tax Commission – §137.115 - Software/programming and additional FTE costs (p. 4)	(Unknown, less than $200,000)	(Unknown, less than $200,000)	(Unknown, less than $200,000)	(Unknown, less than $200,000)
Revenue Loss - §§142.815, 142.822 & 142.824 – decrease in state taxes paid due to the ability to donate motor fuel tax refunds to charity and claim as a deduction on state taxes (p. 21-25)	($106,809)	($115,334)	($127,132)	($136,001)
Revenue Loss - §143.011 - Individual Income Tax Rate Reduction (p. 44-47)	($211,574,439)	($504,879,878)	($505,131,516)	($508,381,243)
Revenue Loss - §143.071 - Corporate Income Tax Rate Reduction (p. 47-51)	($177,765,669)	($355,531,338)	($355,531,338)	($711,062,676)

Revenue Loss - §143.125 Social Security Benefit Tax Exemption (p. 51-53)	$0	($139,863,436)	($136,648,185)	($133,432,934)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**($389,646,917)**	**($1,000,589,986)**	**($997,638,171)**	**($1,353,212,854)**
FISCAL IMPACT – State Government (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
STATE ROAD FUND				
Costs – DOR – §142.822 - development of app to claim motor fuel tax refunds at the pump (p. 26)	Could exceed ($500,000)	$0	$0	$0
Cash Flow – §142.822 - timing of the motor fuel tax refunds – moved up to CY instead of FY (p. 15-20)	($513,112 to $12,821,146)	($171,037 to $4,273,715)	($171,037 to $4,273,715)	$0
Revenue Loss – §142.822 - increase in fuel tax refunds due to eliminating certain required information (p. 23-26)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Loss – §142.822 - increased motor fuel tax refunds due to the elimination of the weight limit for vehicles to claim refunds (p. 33-41)	($11,512,714 to $76,751,429)	($11,512,714 to $76,751,429)	($14,802,061 to $98,680,408)	($16,446,735 to $109,644,898)

Revenue Loss – §142.822 - taxpayers claiming the standard refund vs. the itemized refund (p. 27-33)	($82,660,178)	($106,277,371)	($153,511,758)	($177,128,952)
FISCAL IMPACT – State Government (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Revenue – §144.070 - potential increase in sales tax collection due to dealers having the ability to collect sales tax at the time of sale (p. 54)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
Loss – §144.070 - 2% timely fee possibly being retained by dealerships (p. 53-56)	$0 or Up to ($3,043,870)	$0 or Up to ($3,652,644	$0 or Up to ($3,652,644)	$0 or Up to ($3,652,644)
ESTIMATED NET EFFECT ON THE STATE ROAD FUND	**Could exceed ($97,229,874 to $175,776,623)**	**Could exceed ($121,613,766 to $190,955,159)**	**Could exceed ($172,137,500 to $260,118,525)**	**Could exceed ($197,228,331 to $290,426,494)**
BLIND PENSION FUND				
#Revenue Loss - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method p. (5-15)	$0	#($2,499,449)	#($2,499,449)	#Could exceed ($2,499,449)

#Revenue Change - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method p. (5-15)	$0	#(Unknown)	#(Unknown)	#(Unknown)
FISCAL IMPACT – State Government (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**#Could exceed ($2,499,449)**	**#Could exceed ($2,499,449)**	**#Could exceed ($2,499,449)**
CONSERVATION COMMISSION FUND (0609)				
Revenue – §144.070 - potential increase in sales tax collection due to dealers having the ability to collect sales tax at the time of sale (p. 54)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
Loss – §144.070 - 2% timely fee possibly being retained by dealerships (p. 53-56)	$0 or Up to ($253,656)	$0 or Up to ($304,387)	$0 or Up to ($304,387)	$0 or Up to ($304,387)
ESTIMATED NET EFFECT ON THE CONSERVATION COMMISSION FUND	**$0 or Up to ($253,656)**	**$0 or Up to ($304,387)**	**$0 or Up to ($304,387)**	**$0 or Up to ($304,387)**

PARKS, SOIL AND WATER FUND (0613 & 0614)				
Revenue – §144.070 - potential increase in sales tax collection due to dealers having the ability to collect sales tax at the time of sale (p. 54)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
FISCAL IMPACT – State Government (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Loss – §144.070 - 2% timely fee possibly being retained by dealerships (p. 53-56)	$0 or Up to ($202,925)	$0 or Up to ($243,510)	$0 or Up to ($243,510)	$0 or Up to ($243,510)
ESTIMATED NET EFFECT ON THE PARKS, SOIL AND WATER FUND	**$0 or Up to ($202,925)**	**$0 or Up to ($243,510)**	**$0 or Up to ($243,510)**	**$0 or Up to ($243,510)**
SCHOOL DISTRICT TRUST FUND (0688)				
Revenue – §144.070 - potential increase in sales tax collection due to dealers having the ability to collect sales tax at the time of sale (p. 54)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
Loss – §144.070 - 2% timely fee possibly being retained by dealerships (p. 53-56)	$0 or Up to ($1,014,623)	$0 or Up to ($1,217,548)	$0 or Up to ($1,217,548)	$0 or Up to ($1,217,548)

ESTIMATED NET EFFECT ON THE SCHOOL DISTRICT TRUST FUND	**<u>$0 or Up to ($1,014,623)</u>**	**<u>$0 or Up to ($1,217,548)</u>**	**<u>$0 or Up to ($1,217,548)</u>**	**<u>$0 or Up to ($1,217,548)</u>**
<u>FISCAL IMPACT – State Government</u> (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
STATE ROAD BOND FUND (0319)				
<u>Revenue</u> – §144.070 - potential increase in sales tax collection due to dealers having the ability to collect sales tax at the time of sale (p. 54)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
<u>Loss</u> – §144.070 - 2% timely fee possibly being retained by dealerships (p. 53-56)	<u>$0 or Up to ($3,043,870)</u>	<u>$0 or Up to ($3,652,644)</u>	<u>$0 or Up to ($3,652,644)</u>	<u>$0 or Up to ($3,652,644)</u>
ESTIMATED NET EFFECT ON THE STATE ROAD BOND FUND	**<u>$0 or Up to ($3,043,870)</u>**	**<u>$0 or Up to ($3,652,644)</u>**	**<u>$0 or Up to ($3,652,644)</u>**	**<u>$0 or Up to ($3,652,644)</u>**

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)

LOCAL POLITICAL SUBDIVISIONS				
#Costs – Counties – §137.115 - to administer the changes in assessment from this proposal (p. 5-15)	$0	$0	(Unknown)	(Unknown)
FISCAL IMPACT – Local Government (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Revenue Loss - #§137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method (p. 5-15)	$0	#Up to ($562,586,245)	#Up to ($562,586,245)	#Up to ($562,586,245)
#Revenue Loss - §137.115.9 – farm machinery - reduction in property taxes from change in personal property assessed valuation method (p. 5-15)	$0	#(Unknown)	#(Unknown)	#(Unknown)
Cash Flow – §142.822 - (Cities and Counties) timing of the motor fuel tax refunds (p. 15-20)	($189,781 to $4,742,068)	($63,261 to $1,580,690)	($63,261 to $1,580,690)	$0
Revenue Loss – §142.822 - (Cities and Counties) increase in				

fuel tax refunds due to eliminating certain required information (p. 23-26)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Loss – §142.822 - taxpayers claiming the standard refund vs. the itemized refund (p. 27-33)	($30,572,942)	($39,308,069)	($56,778,322)	($65,513,488)
FISCAL IMPACT – Local Government (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Revenue Loss – §144.070 - increase in motor fuel tax refunds due to eliminating the weight limit restriction (p. 33-41)	($4,258,127 to $28,387,515)	($4,258,127 to $28,387,515)	($5,474,735 to $36,498,233)	($6,083,039 to $40,553,593)
Revenue – §144.070 - potential increase in sales tax collection due to dealers having the ability to collect sales tax at the time of sale (p. 54)	$0 or Unknown	$0 or Unknown	$0 or Unknown	$0 or Unknown
Loss – §144.070 - (FLOYD) - 2% timely fee possibly being retained by dealerships (p. 53-56)	$0 or Up to ($1,014,623)	$0 or Up to ($1,217,548)	$0 or Up to ($1,217,548)	$0 or Up to ($1,217,548)
Loss – §144.070 - (local sales tax only) - 2% timely fee possibly being retained by dealerships (p. 53-56)	$0 or Up to ($8,259,034)	$0 or Up to ($9,910,841)	$0 or Up to ($9,910,841)	$0 or Up to ($9,910,841)

ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVSIONS	**Could exceed ($35,020,850 to $72,976,182)**	**Could exceed ($606,215,702 to $642,990,908)**	**Could exceed ($624,902,563 to $668,571,879)**	**Could exceed ($634,182,772 to $679,781,715)**

FISCAL IMPACT – Small Business

Small businesses that pay tax would be impacted by this proposal.

FISCAL DESCRIPTION

This act modifies provisions relating to commerce.

This bill contains an emergency clause for §137.115.

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
State Tax Commission
Department of Social Services
Missouri Department of Transportation
Department of Commerce and Insurance
Department of Public Safety – Highway Patrol
Office of Administration
Office of the State Auditor
Joint Committee on Administrative Rules
Office of the Secretary of State
County Employees' Retirement Fund (CERF)
Newton County Health Department
Howell County Assessor
Lincoln County Assessor
Ste Genevieve County Assessor
Adair County SB40 Board
St Louis City SB40 Board

City of Kansas City
City of Springfield
Missouri Association of Counties
Andrew County
Barton County
Boone County
Buchannan County
Butler County
Callaway County
Chariton County
Clinton County
Cole County
Dallas County
Franklin County
Greene County
Harrison County
Holt County
Howell County
Lincoln County
Miller County
Newton County
Nodaway County
Oregon County
Pettis County
Phelps County
Ralls County
Randolph County
Scotland County
Scott County
Shelby County
St Clair County
Sullivan County
Washington County

Julie Morff
Director
May 3, 2023

Ross Strope
Assistant Director
May 3, 2023

KB:LR:OD