COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1045H.10C
Bill No.: HCS for SS No. 3 for SCS for SB 131
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - Property; Motor Fuel; Property, Real and Personal; Firearms
Type: Original
Date: May 1, 2023

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
General Revenue	Could exceed ($332,904,718 to $382,639,291)	Could exceed ($935,313,889 to $1,010,327,095)	Could exceed ($955,520,199 to $1,030,533,405)	Could exceed ($1,454,462,594 to $1,529,475,800)
Total Estimated Net Effect on General Revenue	**Could exceed ($332,904,718 to $382,639,291)**	**Could exceed ($935,313,889 to $1,010,327,095)**	**Could exceed ($955,520,199 to $1,030,533,405)**	**Could exceed ($1,454,462,594 to $1,529,475,800)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY Unknown)
Blind Pension Fund	$0	Up to ($2,449,449)	Up to ($2,449,449)	Up to ($2,449,449)
School District Trust Fund (0688)	($2,912,552 to $19,490,743)	($2,801,000 to $23,340,715)	($2,801,000 to $23,340,715)	($2,801,000 to $23,340,715)
Parks and Soils State Sales Tax	($291,256 to $1,949,075)	($280,100 to $2,334,071)	($280,100 to $2,334,071)	($280,100 to $2,334,071)

Fund(S) (0613 & 0614)				
Conservation Commission Fund (0609)	($364,069 to $2,436,343)	($350,125 to $2,917,589)	($350,125 to $2,917,589)	($350,125 to $2,917,589)
Total Estimated Net Effect on <u>Other</u> State Funds	**($3,567,877 to $23,876,161)**	**($5,880,674 to $31,041,824)**	**($5,880,674 to $31,041,824)**	**($5,880,674 to $31,041,824)**

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 <u>All</u> 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)
General Revenue	Could exceed 1 FTE	Could exceed 1 FTE	Could exceed 1 FTE	Could exceed 1 FTE
Total Estimated Net Effect on FTE	**Could exceed 1 FTE**	**Could exceed 1 FTE**	**Could exceed 1 FTE**	**Could exceed 1 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 ($11,854,086 to $79,327,323)**	**Could exceed ($600,382,647 to $683,979,287)**	**Could exceed ($600,382,647 to $683,979,287)**	**Could exceed ($626,778,980 to $710,375,620)**

FISCAL ANALYSIS

ASSUMPTION

Section 115.240 Taxation Related Ballot Measures

Oversight notes this provision specifies that the election authority for a political subdivision or special district must label taxation-related ballot measures submitted by the political subdivision or special district numerically or alphabetically, and the ballot measures cannot be labeled in any other descriptive manner.

Oversight does not anticipate a fiscal impact from this provision. Therefore, Oversight will reflect a zero impact in the fiscal note.

Section 135.098 Firearms Excise Tax Credit/Sales Tax Retention

Officials from the **Department of Revenue (DOR)** note manufacturers who sell firearms and ammunition pay a federal excise tax of 10% on the sale price of all pistols and revolvers and 11% on the sale price of all other firearms and ammunition (shells & cartridges). This firearms excise tax is paid quarterly by the manufacturer.

This provision in Section 135.098, will allow manufacturers who pay the federal firearms excise tax to be reimbursed for the amount of federal firearms excise tax they pay. The tax credit would begin on January 1, 2024 and be equal to 100% of the federal firearms tax paid. They can claim this credit against their Missouri individual income tax or corporate tax return.

This credit is not refundable and does not have any limit on the amount of credits claimed by all filers annually. This provision does have a sunset clause.

Per information released by the Internal Revenue Service on the amount of firearms excise tax collected and the FBI Background check information DOR was able to estimate that Missouri's firearms sales are 1.7% of the total sold:

Tax Year	Federal Excise Tax	MO FBI Checks	US FBI Checks
2019	$544,548,000	497,858	28,007,320
2020	$665,253,000	708,184	39,326,079
2021	$1,102,708,000	634,191	38,573,127
3-year average	$770,836,333	613,411	35,302,175

Therefore $13,394,061 ($770,836,333 * 1.7%) was paid in federal firearms excise tax by Missourians. Since this is a non-refundable tax credit, DOR assumes this will result in a loss to general revenue of less than $13,394,061 annually.

Currently a retailer who sells tangible personal property is required to collect and remit sales tax on the items. That sales tax is reported to DOR either monthly, quarterly or annually.

Under Section 144.064.2 a retailer who only sells firearms and ammunition will no longer be required to collect or remit sales tax. However, some retailers (big box stores) sell firearms/ammunition and other items. Those retailers would no longer be required to collect and remit on their firearms sales but are still required to collect and remit on their other items.

This proposal in Section 144.064.3 creates an alternative way to allow the retailers to receive their federal firearms excise tax back. Instead of choosing to receive the tax credit they can deduct the amount paid in the firearms excise tax from the other sales tax they owe. This way they are reimbursed for the requirement to pay the federal firearms excise tax.

This sales tax deduction is to begin with the effective date of the proposal August 28, 2023 (FY 2024). Since the tax credit will not begin until tax year January 1, 2024 which would not be claimed until they file their returns in January 2025, DOR assumes they will all claim the sales tax deduction in FY 2024.

The Department notes the current state sales tax is 4.225%:
General Revenue is 3%
School District Trust Fund is 1%
Conservation Commission is 0.125%
Parks, Soil & Water Funds are 0.1%
Total 4.225%

The state uses a 4.07% weighted average for the local sales tax.

Since all the taxpayers would have to claim the sales tax exemption for September through December of 2023 it would result in the following impact to the state and local sales tax funds:

Estimated Sales Tax Retention by Tax Year

State Fund	TY 2023		TY2024	
General Revenue	Up to	($1,735,156)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($578,385)	$0 or up to	($1,614,715)
Conservation	Up to	($72,298)	$0 or up to	($201,839)
DNR	Up to	($57,839)	$0 or up to	($161,471)
Total State Loss	Up to	($2,443,678)	$0 or up to	($6,822,170)
Local Sales Tax	Up to	($2,354,028)	$0 or up to	($6,571,890)

For the remainder of FY 2024, January through June 2024 DOR would assume that some of the taxpayers will chose to claim the sales tax while others would switch to the tax credit. This could potentially result in 10 months of sales tax in 2024.

Estimated Sales Tax Retention by Fiscal Year

State Fund	FY 2024		FY 2025	
General Revenue	Up to	($4,157,229)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($1,385,743)	$0 or up to	($1,614,715)
Conservation	Up to	($173,218)	$0 or up to	($201,839)
DNR	Up to	($138,575)	$0 or up to	($161,471)
Total State Loss	Up to	($5,854,765)	$0 or up to	($6,822,170)
Local Sales Tax	Up to	($5,639,973)	$0 or up to	($6,571,890)

For all the other fiscal years, the taxpayer can choose to take the tax credit (only general revenue impact) or the sales tax deduction (sales tax funds impact). In order to show the potential of either choice DOR will show the impact from $0 to all choosing the sales tax deduction for all sales tax funds except general revenue. For general revenue DOR will show the impact as $0 to the sales tax amount up to all taxpayers choosing the tax credit amount.

Table 4: Summary By Fund and Fiscal Year

	FY 2024			FY 2025+			
<u>State Fund</u>	Low		High		Low		High
General Revenue							
Sales Tax Exemption	($7,002,500)		($54,315,000)		($8,403,000)		($65,178,000)
Tax Credit	$0		$0 Or	Up to	($13,394,061) Or	Up to	($13,394,061) Or
Sales Tax Retention	($1,735,156)	Up to	($4,157,229)	Up to	($4,844,145)	Up to	($4,844,145)
Total GR (tax credit vs. sales tax retention)	**($8,737,656)**		**($54,315,000) Or ($58,472,229)**		**($21,797,061) Or ($13,247,145)**		**($78,572,061) Or ($70,022,145)**
Education							
Sales Tax Exemption	($2,334,167)		($18,105,000)		($2,801,000)		($21,726,000)
Sales Tax Retention	($578,385)	Up to	($1,385,743)	Up to	($1,614,715)	Up to	($1,614,715)
Total SDTF	($2,912,552)	Up to	($19,490,743)	Up to	($4,415,715)	Up to	($23,340,715)
Conservation							
Sales Tax Exemption	($291,771)		($2,263,125)		($350,125)		($2,715,750)
Sales Tax Retention	($72,298)	Up to	($173,218)	Up to	($201,839)	Up to	($201,839)
Total Conservation	($364,069)	Up to	($2,436,343)	Up to	($551,964)	Up to	($2,917,589)
DNR							
Sales Tax Exemption	($233,417)		($1,810,500)		($280,100)		($2,172,600)
Sales Tax Retention	($57,839)	Up to	($138,575)	Up to	($161,471)	Up to	($161,471)
Total DNR	($291,256)	Up to	($1,949,075)	Up to	($441,571)	Up to	($2,334,071)
Total State Revenues (tax credit vs. sales tax retention)	**($12,305,533)**		**($76,493,625)** Or **($82,348,390)**		**($25,228,286)** Or **($18,656,395)**		**($105,186,411)** Or **($98,614,520)**
<u>Local Funds</u>							
Sales Tax Exemption	($9,500,058)		($73,687,350)		($11,400,070)		($88,424,820)
Sales Tax Retention	($2,354,028)	Up to	($5,639,973)	Up to	($6,571,890)	Up to	($6,571,890)
Total Local Funds	**($11,854,086)**	**Up to**	**($79,327,323)**	**Up to**	**($17,971,960)**	**Up to**	**($94,996,710)**

DOR notes the federal firearms excise tax would be a new income tax credit and it would be added to the MO-TC and information about the credit would be added to their website and changes would be needed in their individual income tax computer system. DOR notes the costs to update these items is $7,193.

The sales tax deduction would require changes to their existing sales tax forms, website and computer system. Those changes are estimated to cost $7,193.

DOR assumes they will need one Associate Customer Service Representative ($31,200) to handle the tax credits and sales tax deduction. Should the number justify additional FTE DOR will seek those through the appropriation process.

- 1 FTE Associate Customer Service Rep for every 6,000 credits redeemed
- 1 FTE Associate Customer Service Rep for every 7,600 errors/correspondence generated

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would grant an income tax credit equal to the amount of federal excise tax paid on firearms and ammunition made in the U.S., start with tax year 2024. B&P notes that while this tax credit would be available for tax year 2024, it would not be taken until FY25 when taxpayers file their annual income tax return.

The tax credit is non-refundable, but may not be transferred, sold, assigned, or otherwise conveyed. In addition, taxpayers may not claim both this credit and the proposed sales tax retention under Section 144.064.3.

B&P notes that the federal excise tax is levied on the seller of firearms and ammunition, with a 10% tax on handguns and an 11% tax on all other guns and ammunition. Based on data published by the IRS, the three-year average federal excise tax collections were $770,836,333. Using FBI background checks as a proxy for gun and ammunition sales, B&P estimates that Missouri may make up approximately 1.7% of the total excise tax. Using the above data, B&P estimates that Missouri retailers may pay $13,394,061 ($770,836,333 x 1.7%) in federal firearm and ammunition excise tax each year.

Therefore, B&P estimates that this provision could reduce TSR and GR by $13,394,061. However, B&P notes that proposed language in Section 144.064.3 could reduce the amount of the income tax credit taken. Please see the discussion on "Section 144.064.3 - Sales Tax Retention" for more information.

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

<u>**Section 137.067 Taxation Ballot Measures**</u>

Oversight notes this provision requires any ballot measure seeking approval to add, change, or modify a tax on real property to express the effect of the proposed change within the ballot language in terms of the change in real dollars owed per $100,000 of a property's market valuation.

Oversight does not anticipate a fiscal impact from this proposal. Therefore, Oversight will reflect a zero impact in the fiscal note.

<u>**Section 137.073 Temporary Levy Increase**</u>

Oversight notes this provision specifies that, if the voters in a political subdivision approve a temporary levy increase prior to the expiration of a previously approved temporary levy increase, the new tax rate ceiling will remain in effect only until the temporary levy increase expires under the terms originally approved by a vote of the people. At that time, the tax rate ceiling will be decreased by the amount of the temporary levy increase unless voters of the political subdivision are asked to approve an additional permanent increase and such increase is approved.

Oversight does not anticipate a fiscal impact from this proposal. Therefore, Oversight will reflect a zero impact in the fiscal note.

<u>**Section 137.115 Personal Property Assessment**</u>

Officials from the **Office of Administration - Budget and Planning (B&P)** note for tax year 2023, this proposal would allow 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
2023	85.0%	85.0%	0.0%
2022	75.0%	75.0%	0.0%
2021	67.5%	67.5%	0.0%
2020	61.7%	54.7%	(7.0%)
2019	54.7%	49.7%	(5.0%)
2018	49.2%	44.2%	(5.0%)
2017	44.3%	39.9%	(4.4%)
2016	39.9%	24.8%	(15.1%)
2015	35.9%	16.8%	(19.1%)
2014	32.3%	12.8%	(19.5%)
2013	29.0%	10.0%	(19.0%)
2012	26.1%	0.1%	(26.0%)
2011	23.5%	0.1%	(23.4%)
2010	21.2%	0.1%	(21.1%)
2009	19.1%	0.1%	(19.0%)
2008	17.2%	0.1%	(17.1%)
2007	15.4%	0.1%	(15.3%)
2006	13.9%	0.1%	(13.8%)
2005	12.5%	0.1%	(12.4%)
2004	11.2%	0.1%	(11.1%)
2003	10.0%	0.1%	(9.9%)

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

**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 Budget and Planning has provided a revised response based on new information. B&P was able to obtain a depreciation schedule similar to the one historically shown in the NADA publications. Additionally, B&P updated the tax rate used to estimate the local tax revenue to the current effective tax rate.

Oversight notes local property tax revenues are designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. However, some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. 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 a loss of revenue. Oversight notes the Blind Pension Fund levy ($0.03) is not adjustable.

Officials from the **State Tax Commission (STC)** assume 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.

Officials from the **County Employees' Retirement Fund (CERF)** note their response is limited to Section 137.115, which is the only section that would impact CERF. Their review of this bill would indicate that it 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.

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.)

Officials from the **Lincoln County Assessor** assume this will 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** estimate 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** note 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** note 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

Officials from **Howell County** note the statewide the depreciation schedule in 137.115 may cause a loss of over $2,000,000,000 or more to local governments, the loss of jobs, the reduction of services, it will decrease safety of citizens and cause loss of critical infrastructure necessary to commerce and may ultimately affect state revenues.

Officials from **Andrew County** note 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.

Officials from **Barton County** note 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.

Officials from **Boone County** note 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,

Officials from **Buchannan County** note 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.

Officials from **Butler County** note 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).

Officials from **Calloway County** note 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.

Officials from **Chariton County** note 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

Officials from **Clinton County** note 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.

Officials from **Cole County** note 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

Officials from **Dallas County** note 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.

Officials from **Franklin County** note 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.

Officials from **Greene County** note 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.

Officials from **Harrison County** note 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.

Officials from **Holt County** note 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,

Officials from **Lincoln County** note 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.

Officials from **Miller County** note the bill would basically zero out 34,921 items (all motorized vehicles and farm machinery older than 10 years.

Officials from **Newton County** note 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.

Officials from **Nodaway County** note 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.

Officials from **Oregon County** note 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.

Officials from **Pettis County** note 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.

Officials from **Phelps County** note 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.

Officials from **Ralls County** note 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.

Officials from **Randolph County** note 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.

Officials from **Scotland County** note 64% of the vehicles assessed in Scotland County are 10 years old or older

Officials from **Scott County** note 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.

Officials from **Shelby County** note 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.

Officials from **St Clair County** assume 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%.

Officials from **Sullivan County** note 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.

Officials from **Washington County** note the number of motor vehicles in the county 10 years old or older stands at 21,749.

Officials from **Andrew County** state 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>Section 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 2026 and beyond based on current revenue projections. Therefore, the current and proposed rates are:

Current and Proposed Income Tax Rates

Tax Year	Current Rate	Proposed Rate
2024	4.8%	4.5%
2025	4.8%	4.5%
2026	4.7%	4.35%
2027	4.6%	4.25%
2028	4.5%	4.15%
2029+	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	Amount
2024	($343,871,165)
2025	($342,453,209)
2026	($404,858,833)
2027	($406,254,255)
2028	($407,377,145)
2029	($522,057,242)

By Fiscal Year

Fiscal Year	Loss to GR
2024	($143,830,348)
2025	($343,275,623)
2026	($368,663,571)
2027	($405,444,910)
2028	($406,725,869)
2029	($455,542,786)
2030	($522,057,242)

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

Officials from the **Office of Administration - Budget and Planning (B&P)** note 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; however, it would delay the next possible trigger from tax year 2024 to tax year 2025.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY25, FY26, FY27, and FY28 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 2026 (0.15%), 2027 (0.1%), 2028 (0.1%), and 2029 (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%	4.50%
2025	4.80%	4.50%
2026	4.70%	4.35%
2027	4.60%	4.25%
2028	4.50%	4.15%
2029	4.50%	4.05%

**Assumes SB 3 (2022) reductions are triggered for tax years: 2026, 2027, 2028, and 2029.*

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 $344.9 million for calendar year 2024. Once SB 3 (2022) has fully implemented, B&P estimates this provision could reduce tax collections by $523.6 million 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	($344,891,233)
2025	($343,473,426)
2026	($400,574,060)
2027	($399,107,738)
2028	($408,594,464)
2029	($523,616,279)

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 $144.9 million in FY24. Once SB 3 (2022) has been fully implemented in FY29, and annually thereafter, this proposal may reduce TSR and GR by $523.6 million. Table 3 shows the estimated impact from this section by fiscal year.

Table 3: Impact by Fiscal Year

Fiscal Year	GR Impact
2024	($144,854,318)
2025	($344,295,754)
2026	($367,455,692)
2027	($399,958,205)
2028	($403,092,163)
2029	($456,903,626)
2030	($523,616,279)

Section 143.022 Business Exemption

Officials from the **Department of Revenue (DOR)** note this proposal attempts to add the income of farmers as reported on two specific IRS forms to the business exemption. Those forms are the Schedule F and Form 4835. It should be noted the income reported on Form 4835 is reported onto the Schedule E which is already exempt per statutes.

The Department used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact. SB 3 adopted in 2022, lowered the individual income tax rate to 4.95% starting January 1, 2023 and additionally is projected to lower the current tax rate down to 4.5% over a period of years based on revenue growth. Additionally, due to changes in this bill the rate will decrease. DOR will show the impact through the implementation period.
The Department notes that this income is reported at the time of filing of the return and is will result in a loss to general revenue:

Tax Year (Fiscal Year)	Amount
2023 (FY 2024)	($2,254,947)
2024 (FY 2025)	($2,034,731)
2025 (FY 2026)	($2,030,853)
2026 (FY 2027)	($1,958,074)
2027 (FY 2028)	($1,910,839)
2028 (FY 2029)	($1,866,823)

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

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would add Schedule F (farm income) and Form 4835 to the list of income types included within the business income exemption. B&P notes that Form 4835 is for farm rental income, which is included within Schedule E and is therefore already included within the existing exemption. Therefore, this proposal will only add Schedule F to the business income exemption.

B&P further notes that the business income exemption was fully implemented for tax year 2023, with a total exemption allowance of 20%. In addition, this proposal will start on August 28, 2023. Therefore, B&P assumes that the exemption would apply to tax year 2023 income.

In order to prevent overestimating the impact of this provision, B&P accounted for the reduced individual income tax rates proposed in Section 143.011.

Using tax year 2020 data, the most recent and complete year available, and accounting for the individual income tax reductions contained within Section 143.011, B&P estimates that this provision may reduce TSR and GR by $2,263,751 in FY24. Once the individual income tax reductions contained within Section 143.011, B&P estimates that this provision could reduce TSR and GR by $1,828,943 annually. Table 1 shows the estimated impact by year.

Table 1: Estimated Impact by Year

Tax Year	Fiscal Year	GR Loss
2023	2024	($2,264,343)
2024	2025	($2,036,394)
2025	2026	($2,033,870)
2026	2027	($1,965,731)
2027	2028	($1,921,720)
2028	2029	($1,875,699)
2029	2030	($1,828,943)

**Estimates include contemporaneously occurring rate reductions contained in Section 143.011.*

<u>Section 143.071 Corporate Income Tax Rate Reduction</u>

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. This proposal will eventually be a 100% reduction in the corporate tax so the financial institutions tax would also have a 100% decrease. The financial institutions tax is currently 4.48% with 98% of it distributed to locals and 2% retained by general revenue. In FY 2022, DOR collected $53,870,066 in tax. Per Section 148.720 the reduction in the financial institutions tax is reduced in the following year. The tax rates are expected to be:

Tax Year	Corporate Rate	Financial Institutions Rate
2023 current	4.0%	4.48%
2024	2.0%	2.24%
2025	2.0%	2.24%
2026	2.0%	12.24%
2027	1%%	1.12%
2028	0%	0%
2029	0%	0%

The Department used its internal Income Tax Model that contains confidential taxpayer data from the 2020 tax year (the most recent complete tax year data) to calculate the fiscal impact.

State and Local Impact from Corporate Rate Reduction

	FY24	FY25	FY26
State Impact			
Corporate Tax Rate Reduction	($177,765,669)	($355,531,338)	($355,531,338)
Financial Institutions Tax Rate Reduction (2%)	$0	($538,701)	($538,701)
Total GR Loss	($177,765,669)	($356,070,039)	($356,070,039)
Local Impact	FY24	FY25	FY26
Financial Institutions Tax Rate Reduction (98%)	$0	($26,396,332)	($26,396,332)

State and Local Impact from Corporate Rate Reduction (cont.)

	FY27	FY28	FY29
State Impact			
Corporate Tax Rate Reduction	($444,414,173)	($622,179,842)	($711,062,676)
Financial Institutions Tax Rate Reduction (2%)	($538,701)	($808,051)	($1,077,401)
Total GR Loss	($444,952,874)	($622,987,893)	($712,140,077)
Local Impact	FY27	FY28	FY29
Financial Institutions Tax Rate Reduction (98%)	($26,396,332)	($39,594,499)	($52,792,665)

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

Officials from the **Office of Administration - Budget and Planning (B&P)** note 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.

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. Such reduction shall occur in the calendar year in which the corporate tax rate is reduced.

Table 1: Proposed Corporate Tax Rate

Tax Year	Corporate Rate	Franchise Tax Rate
2023	4.00%	0.0448
2024	2.00%	2.24%
2025	2.00%	2.24%
2026	2.00%	2.24%
2027	1.00%	1.12%
2028	0.00%	0.00%

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

Corporate Income Tax
In FY22, 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 2 shows the estimated impact by tax year.

Table 2: 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 3 shows the estimate impact on general revenue by fiscal year.

Table 3: 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.

Financial Institution Tax
B&P notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year. In FY22, financial institutions tax collections were $53,870,066 at a tax rate of 4.48%.

B&P notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2. For example: tax payments for 2024 will be collected and distributed during FY25. Table 4 shows the estimated impact on state and local funds by fiscal year.

Table 4: State and Local Impact from Brank Franchise Tax Reduction

Tax Year	GR (2%)	Local (98%)
FY24	$0	$0
FY25	($538,701)	($26,396,332)
FY26	($538,701)	($26,396,332)
FY27	($538,701)	($26,396,332)
FY28	($808,051)	($39,594,499)
FY29	($1,077,401)	($52,792,665)

Corporate Summary
Therefore, B&P estimates that this proposal could reduce TSR and GR by $177.8 million in FY24. Once fully implemented, this proposal could reduce TSR and GR by $712.1 million annually. Table 4 shows the estimated state and local revenue impact.

Table 5: State and Local Impact from Corporate Rate Reduction

	FY24	FY25	FY26
State Impact			
Corporate Tax Rate Reduction	($177,765,669)	($355,531,338)	($355,531,338)
Financial Institutions Tax Rate Reduction	$0	($538,701)	($538,701)
Total GR Loss	($177,765,669)	($356,070,039)	($356,070,039)
Local Impact	FY24	FY25	FY26
Financial Institutions Tax Rate Reduction	$0	($26,396,332)	($26,396,332)

*Assume Section 143.071.5 triggered for tax year 2027.

Table 5: State and Local Impact from Corporate Rate Reduction (cont.)

	FY27	FY28	FY29
State Impact			
Corporate Tax Rate Reduction	($444,414,173)	($622,179,842)	($711,062,676)
Financial Institutions Tax Rate Reduction	($538,701)	($808,051)	($1,077,401)
Total GR Loss	($444,952,874)	($622,987,893)	($712,140,077)
Local Impact	FY27	FY28	FY29
Financial Institutions Tax Rate Reduction	($26,396,332)	($39,594,499)	($52,792,665)

*Assume Section 143.071.5 triggered for tax year 2027.

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 FY20 – FY22. 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.

Section 143.114 ESOP

Officials from the **Department of Revenue (DOR)** note this proposal extends the Employee Stock Ownership Plan Deduction. This deduction was to sunset on December 31, 2022, and the sunset language is removed thereby assuring this deduction will be permanent. Extending or removing the sunset language of an existing program is not expected to have impact.

For informational purposes, this deduction began in 2017. No one claimed the credit in 2017. In 2018, 17 people claimed the credit. However, in 2019 & 2020 more than zero but less than the minimum reportable number filed for this deduction. Under Section 32.057, the Department does not disclose the number of tax returns or amounts claimed if the number is so low it could identify the taxpayer. The minimum number of returns to report is 10. What DOR can provide is the grand total claimed from 2017-2020 which was $722,342.

Oversight is unable to estimate the amount to be claimed under this deduction in future years. However, using DOR's total of $722,342 in deductions claimed from 2017-2020 (4 years), we could estimate the average annual impact over that time period was $9,751 ($722,342 / 4 years x 5.4% individual income tax rate). Therefore, Oversight will show a negative unknown impact for this provision, not reaching the $250,000 threshold.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this program extends the current income tax deduction for capital gains related to certain employee stock ownership sales. B&P notes that this is an extension of an existing program. Therefore, this provision will not impact TSR or the calculation under Article X, Section 18(e).

Section143.124 Private Pension Benefits

Officials from the **Department of Revenue (DOR)** note this proposal is changing the taxability of retirement income. Currently, depending on the type of retirement benefit and the taxpayer's Missouri adjusted gross income (MAGI) some of the benefits are taxable.

Public Retirement Benefits
Per statutes, any retirement benefits other than public pension benefits are eligible to receive up to the first $6,000 in income from retirement benefits as an exemption from taxation. This would include pensions from private companies, 401(k), deferred compensation plans, annuities, and self-employed retirement plans (Keogh). This exemption is only allowed for individual taxpayers with a MAGI of less than $25,000 or for those filing a combined return of up to $32,000 MAGI.

Starting January 1, 2024, this proposal would increase the $6,000 to $12,000 for taxpayers. It would also increase the number of people eligible for this exemption by increasing the MAGI of individual filers to $50,000 and the MAGI of combined filers to $64,000. This will increase the number of people eligible for this exemption.

Impact
The Department notes these changes are to begin for tax years starting January 1, 2024 and therefore will not fiscally impact the state until FY 2025 based on when the tax returns are filed claiming the exemption.

DOR used information reported by taxpayers on their federal returns to start the calculation of the additional revenue that may be exempt from tax. Then DOR used their internal Individual Income Tax Database for Missouri, DOR found the following distribution of filers of public and private pensions.

Pensions	Public	Private
Singles	39%	61%
Married Filing Joint	49%	51%
Head of Household (HOH)	42%	58%

Here is the estimated loss per benefit type:

Estimated Loss by Retirement Income

Retirement Income	4.50%	4.35%	4.25%	4.15%	4.05%
Individual Retirement Distributions	($34,366,590)	($33,221,037)	($32,457,335)	($31,693,633)	($30,929,931)
Pensions/Annuities (Public)	$0	$0	$0	$0	$0
Pensions/Annuities (Private)	($53,575,670)	($51,789,814)	($50,599,244)	($49,408,673)	($48,218,103)
Social Security	$0	$0	$0	$0	$0
Self-Employed (Keogh)	($410,297)	($396,620)	($387,503)	($378,385)	($369,267)
Total GR Loss	**($88,352,557)**	**($85,407,471)**	**($83,444,082)**	**($81,480,691)**	**($79,517,301)**

SB 3 adopted in 2022 set the individual income tax rate at 4.95% in tax year 2023. The tax rate is scheduled to continue to reduce over a period of several years until the rate equals 4.5%. Due to additional tax changes in this proposed bill, the tax rate will reduce further. For fiscal note purposes, DOR will show the loss at each of those tax rates over SB 3's implementation period plus this bill's rates. This will result in a loss to general revenue. DOR estimates the loss to general revenue:

Estimated Loss by Fiscal Year

	Tax Year (Fiscal Year)			
Tax Rate	2024 (FY25)	2025 (FY26)	2026 (FY27)	2027 (FY28)
4.50%	($88,352,557)	($88,352,557)	($88,352,557)	($88,352,557)
4.35%	($85,407,471)	($85,407,471)	($85,407,471)	($85,407,471)
4.25%		($83,444,082)	($83,444,082)	($83,444,082)
4.15%			($81,480,691)	($81,480,691)
4.05%				($79,517,301)

Administrative Impact
This proposal will require modification to the MO-A 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

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

Officials from the **Office of Administration - Budget and Planning (B&P)** note the following:

Individual Retirement Distributions
Currently taxpayers may subtract $6,000 of their individual retirement income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers. B&P notes that these payments would include IRAs and 401(k) plans.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for singles and $64,000 for married filing combined taxpayers.

Based on data published by the IRS, B&P estimates that this provision may exempt up to $356,706,746 in individual retirement arrangement payments for taxpayers filing single, $119,123,284 for taxpayers filing head of household, and $366,736,152 for married filing joint taxpayers; for a total of up to $763,701,991 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. B&P notes that this proposal would also impact the tax rate applied to individual income. For the purpose of this fiscal note, B&P will estimated the impact for this provision using the proposed tax rates under Section 144.011 contained within this proposal.

Consequently, B&P estimates that exempting individual retirement income could reduce TSR and GR by $34,366,590 (top tax rate 4.5%) in FY25. Once the individual income tax reductions contained within Section 143.011 have fully implemented, this provision could reduce TSR and GR by $30,929,931 annually.

Pensions and Annuities
B&P notes that the term "pensions and annuities" includes both public and private retirement funds. For the purpose of this fiscal note, B&P used tax year 2020 (the most recent complete year available) Missouri tax return data to estimate the percentage of payments from public pensions and annuities versus private pensions and annuities.

In tax year 2020, 61% of pension and annuity payments were from private funds and 39% were from public funds for individuals filing single. For married filing combined individuals, 51% of payments were from private funds, while 49% were from public funds. For taxpayers filing as head of household, 58% of pension and annuity payments were from private sources, while 42% were from public sources.

Private Pensions and Annuities
Currently taxpayers may exempt $6,000 of their private pension and annuity income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for singles and $64,000 for married filing combined taxpayers.

Based on data published by the IRS, B&P estimates that this provision may exempt up to $749,989,260 in private pension and annuity payments for taxpayers filing single, $231,810,834 for taxpayers filing head of household, and $509,493,355 for married filing joint taxpayers; for a total of up to $231,810,834 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. B&P notes that this proposal would also impact the tax rate applied to individual income. For the purpose of this fiscal note, B&P will estimated the impact for this provision using the proposed tax rates under Section 144.011 contained within this proposal.

Consequently, B&P estimates that exempting private pension and annuity income could reduce TSR and GR by $53,575,670 (top tax rate 4.5%) in FY25. Once the individual income tax reductions contained within Section 143.011 have fully implemented, this provision could reduce TSR and GR by $48,218,103 annually.

Self-Employed (Keogh) Payments
Currently taxpayers may exempt $6,000 of their Keogh retirement income, if their Missouri Adjusted Gross Income (MAGI) is less than $25,000 for taxpayers filing single or head of household and $32,000 for married filing combined taxpayers.

This proposal would allow taxpayers to subtract $12,000 of their retirement income, if their MAGI is less than $50,000 for singles and $64,000 for married filing combined taxpayers.

Based on data published by the IRS, B&P estimates that this provision may exempt $3,566,765 in Keogh payments for taxpayers filing single, $1,160,709 for taxpayers filing head of household, and $5,160,139 for married filing joint taxpayers; for a total of $1,160,709 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. B&P notes that this proposal would also impact the tax rate applied to individual income. For the purpose of this fiscal note, B&P will estimated the impact for this provision using the proposed tax rates under Section 144.011 contained within this proposal.

Consequently, B&P estimates that exempting Keogh retirement income could reduce TSR and GR by $410,297 (top tax rate 4.5%) in FY25. Once the individual income tax reductions contained within Section 143.011 have fully implemented, this provision could reduce TSR and GR by $369,267 annually.

Pension Subtraction Summary
B&P estimates that this proposal could reduce TSR and GR by $88,352,557 (top tax rate 4.5%) in FY25 Once the individual income tax reductions contained within Section 143.011 have fully implemented, this proposal could reduce TSR and GR by $79,517,301 annually. Table 1 shows the estimated loss by provision, while Table 2 shows the estimated loss by tax and fiscal year.

Table 1: Revenue Loss by Private Pension Exemption Provision and Year

Tax Year	Fiscal Year	Tax Rate	Individual Retirement Distributions	Pensions/Annuities (Private)	Self-Employed (Keogh)	Total GR Loss
2024	2025	4.50%	($34,366,590)	($53,575,670)	($410,297)	($88,352,557)
2025	2026	4.50%	($34,366,590)	($53,575,670)	($410,297)	($88,352,557)
2026	2027	4.35%	($33,221,037)	($51,789,814)	($396,620)	($85,407,471)
2027	2028	4.25%	($32,457,335)	($50,599,244)	($387,503)	($83,444,082)
2028	2029	4.15%	($31,693,633)	($49,408,673)	($378,385)	($81,480,691)
2029	2030	4.05%	($30,929,931)	($48,218,103)	($369,267)	($79,517,301)

**Estimates include contemporaneously occurring rate reductions contained in Section 143.011.*

<u>Section 143.125 Social Security Benefits Tax Exemption</u>

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 estimate 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

Officials from the **Office of Administration - Budget and Planning (B&P)** note 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.

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. B&P notes that this proposal would also impact the tax rate applied to individual income. For the purpose of this fiscal note, B&P will estimated the impact for this provision using the proposed tax rates under Section 144.011 contained within this proposal.

Consequently, B&P estimates that exempting social security payments could reduce TSR and GR by $144,686,314 (top tax rate 4.5%) in FY25. Once the individual income tax reductions contained within Section 143.011 have fully implemented, this provision could reduce TSR and GR by $130,217,682 annually.

Table 1: Revenue Loss from Social Security Exemption

Tax Year	Fiscal Year	Tax Rate	Social Security
2024	2025	4.50%	($144,686,314)
2025	2026	4.50%	($144,686,314)
2026	2027	4.35%	($139,863,436)
2027	2028	4.25%	($136,648,185)
2028	2029	4.15%	($133,432,934)
2029	2030	4.05%	($130,217,682)

**Estimates include contemporaneously occurring rate reductions contained in Section 143.011.*

Section 144.064 Firearms and Ammunition Sales Tax Exemption

Officials from the **Department of Revenue (DOR)** note this proposal would grant a state and local sales tax exemption for firearms and ammunition sold in this state. The current sales tax rate on firearms and ammunition is 4.225%. This would remove the tax on these purchases starting August 28, 2023, the effective date of this proposal.

The Department notes the current state sales tax is 4.225%:

General Revenue is	3.000%
School District Trust Fund is	1.000%
Conservation Commission is	0.125%
Parks, Soil & Water Funds are	0.100%
Total	4.225%

The state uses a 4.07% weighted average for the local sales tax.

The Department looked into the price of various firearms. DOR found that no single source maintains data on the amount of firearms that are sold annually. DOR found that prices varied on the different types of firearms:

Rifles $500-$10,000
Shotguns $400-$2,000
Handguns $250-$2,500
Revolvers $200-$1,500

The FBI background check report for Missouri in 2022 showed 472,720 background checks were completed but does not record the price of a firearm. The Department used a $500 cost for a firearm to estimate the impact of this proposal.

The Department notes this proposal becomes effective August 28, 2023. For the simplicity of the fiscal note, DOR will show an impact of 10 months in FY 2024. The lost revenue to the state and locals would be distributed among the funds as follows:

Firearms Only

	FY 2024 (10 months)	FY 2025
General Revenue	($5,909,000)	($7,090,800)
School District	($1,969,667)	($2,363,600)
Conservation	($246,208)	($295,450)
Park Soil	($196,967)	($236,360)
Locals	($8,016,543)	($9,619,852)

The Department was unable to find information on the amount of ammunition sold in Missouri. However, the National Shooting Sports Foundation estimates at least 8.1 billion rounds of ammunition are manufactured in the United States annually. Given that Missouri's population is 1.8% of the total population DOR could assume that as much as 145,800,000 rounds of ammunition are sold in Missouri annually.

Just like the firearms that vary in price based on the size of the weapon, so does the ammunition. The current price is anywhere from $15 to $60 per box, with anywhere from 20 rounds to 50 rounds per box. Assuming all the ammunition in Missouri were sold as 50 rounds per box, it would result in 2.9 million boxes of ammunition being sold. At the minimum price of $15 per box this would result in taxable sales of $43,740,000. At the state sales tax rate of 4.225% this proposal would result in a loss of $1,848,015 in state sales tax and another $1,780,218 in local sales tax being exempt. Using this information DOR could see a loss of:

Ammunition Only

	FY 2024 (10 months)	FY 2025+
General Revenue	($1,093,500)	($1,312,200)
School District	($364,500)	($437,400)
Conservation	($45,563)	($54,675)
Park Soil	($36,450)	($43,740)
Locals	($1,483,515)	($1,780,218)

The Bureau of Economic Analysis maintains records on the amount of sporting equipment, supplies, guns and ammunition that are sold annually. However, these items are lumped together and not segregated for just firearms or ammunition. According to their September 30, 2022 report there was $120.7 billion in goods sold in this category. Since Missouri is 1.8% of the population, DOR could assume that $2,172,600,000 of that category is sold here.

All Sporting Goods (firearms & ammunition)

	FY 2024 (10 months)	FY 2025+
General Revenue	($54,315,000)	($65,178,000)
School District	($18,105,000)	($21,726,000)
Conservation	($2,263,125)	($2,715,750)
Park Soil	($1,810,500)	($2,172,600)
Locals	($73,687,350)	($88,424,820)

For the purpose of the fiscal note, DOR will range the impact from the firearms and ammunition combined amount (low range) to the sporting goods amount (high range).

	FY 2024 (10 months)		FY 2025+	
	Low	High	Low	High
General Revenue	($7,002,500)	($54,315,000)	($8,403,000)	($65,178,000)
School District	($2,334,167)	($18,105,000)	($2,801,000)	($21,726,000)
Conservation	($291,771)	($2,263,125)	($350,125)	($2,715,750)
Park Soil	($233,417)	($1,810,500)	($280,100)	($2,172,600)
Locals	($9,500,058)	($73,687,350)	($11,400,070)	($88,424,820)

This will require updates to the Department's sales tax system, estimated at $7,193. This proposal also has the potential to increase the number of refund requests. DOR will need 1 Associate Customer Service Representative for every increase of 1,100 refund requests. At this time, DOR believes they can absorb the impact, however, should DOR get enough refunds claims to justify new FTE DOR will seek them through the appropriations process.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt the sales of firearms and ammunition made in the U.S. from state and local sales taxes beginning August 28, 2023.

Firearms

For the purpose of this fiscal note, B&P will use the number of FBI background checks to estimate the number of guns purchases per year. B&P notes that not every background check will result in the purchase of a firearm and some background checks will result in the purchase of multiple firearms.

Based on data published by the FBI, the average number of background checks was 625,032 for 2020-2022. According to Pew Research, 62% of gun owners own a handgun, 22% own a rifle or muzzleloader, and 16% own a shotgun. Based on this information, B&P estimates the following annual gun sales:

- Handguns – 387,520
- Rifles/muzzleloaders – 137,507
- Shotguns – 100,005

In addition, B&P found the average price for each gun type:

- Handguns – $255 to $640
- Rifles/muzzleloaders – $710 to $3,030
- Shotguns – $580 to $785

Therefore, B&P estimates that this proposal could exempt $254,450,470 to $743,162,935 in gun sales from state and local sales tax:

- Handguns – $98,817,600 to $248,012,800
- Rifles/muzzleloaders – $97,629,970 to $416,646,210
- Shotguns – $58,002,900 to $78,503,925

<u>Ammunition</u>
Based on price research, B&P estimates that the average price of ammunition for the following types of firearms:

- Handguns - $0.44 per round
- Rifles - $0.57 per round
- Shotguns - $1.40 per round
- Specialty guns (antiques) - $1.47 per round

Based on further research, B&P found that the average gun owner also purchases the following amounts of ammunition rounds:

- Handguns – 500 to 1,500 rounds
- Rifles – 500 to 2,000 rounds
- Shotguns – 250 to 1,000 rounds
- Specialty guns (antiques) – 50 to 250 rounds

Therefore, B&P estimates that the average gun owner spends the following amount on ammunition:

- Handguns - $221 to $662
- Rifles - $284 to $1,138
- Shotguns - $350 to $1,400
- Specialty guns (antiques) - $74 to $368

B&P notes that based on additional data, 74% of ammunition purchases are made for handguns.

Using the FBI background data (discussed above), B&P estimates that this provision could exempt $147,744,640 to $491,733,261 in taxable sales from state and local sales taxes. B&P notes that this estimate only includes ammunitions purchases for new guns and does not include additional purchases for firearms that were bought in previous years.

Summary

Once fully implemented in FY25, B&P estimates that this provision could reduce TSR by $16,992,743 to $52,174,364 and GR by $12,065,853 to $37,046,886. Using the population weighted sales tax rate of 4.07% for 2022, B&P estimates that this provision may reduce local sales tax collections by $16,369,341 to $50,260,275 once fully implemented.

Table 1: Impact by Fund

	FY 2024		FY 2025+	
State Funds	Low	High	Low	High
General Revenue	($10,054,878)	($30,872,405)	($12,065,853)	($37,046,886)
Education (SDTF)	($3,351,626)	($10,290,802)	($4,021,951)	($12,348,962)
Conservation	($418,953)	($1,286,350)	($502,744)	($1,543,620)
DNR	($335,163)	($1,029,080)	($402,195)	($1,234,896)
Total State Loss	($14,160,620)	($43,478,637)	($16,992,743)	($52,174,364)
Local Funds				
Local Sales Tax	($13,641,118)	($41,883,563)	($16,369,341)	($50,260,275)

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

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

Section 144.064.3 – Sales Tax Retention

Officials from the **Office of Administration - Budget and Planning (B&P)** note retailers may elect to retain sales tax remittances equal to the amount they paid in federal firearm and ammunition sales tax, beginning August 28, 2023. In order to qualify, a retailer must timely file their sales tax return. If the retailer's sales tax remittances are less than the amount they paid in federal excise tax, the retailer may carry the difference forward until used.

B&P notes that as Section 144.064.2 would exempt all sales of firearms and ammunition from sales tax, this provision would only impact businesses that sell items other than firearms and ammunition. B&P is unable to determine how many businesses would no longer remit any sales tax due to the exemption created under Section 144.064.2.

B&P is unable to determine how many businesses will elect the income tax credit or the sales tax retention. For the purpose of this fiscal note, B&P will reflect the top potential impact under both scenarios and highlight that they are an "or" outcome. B&P further notes that regardless of which option is elected, the total loss will not exceed the amount paid in federal firearm and ammunition excise tax, estimated here at $13,394,061 annually (see discussion under Section 135.098 – Federal Firearm and Ammunition Excise Tax Credit). However, the funds impacted will change depending on whether the income tax credit or sales tax retention is utilized. B&P notes that the income tax credit will only impact state GR, while the sales tax retention will impact all state and local funds receiving sales tax collections.

Using the estimated amount of $13,394,061 in excise tax paid by MO retailers, and the distribution of monthly FBI checks, B&P estimates that approximately 35.8% of federal excise tax would be paid for September through December sales each year. Therefore, B&P estimates that for tax year 2023 up to $2,443,678 in sales taxes may be retained. Table 2 shows the estimated sales tax retention by fund and tax year.

Table 2: Estimated Sales Tax Retention by Tax Year

State Fund	TY 2023		TY2024	
General Revenue	Up to	($1,735,156)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($578,385)	$0 or up to	($1,614,715)
Conservation	Up to	($72,298)	$0 or up to	($201,839)
DNR	Up to	($57,839)	$0 or up to	($161,471)
Total State Loss	Up to	($2,443,678)	$0 or up to	($6,822,170)
Local Funds				
Local Sales Tax	Up to	($2,354,028)	$0 or up to	($6,571,890)

B&P notes that a taxpayer may not claim both this sales tax retention and the income tax credit under Section 135.098. However, the tax credit is not available for tax year 2023. Therefore, B&P assumes that all businesses with unrelated sales tax will utilize the sales tax retention from September through December 2023. B&P notes that the tax year 2024 impact reflects both the potential that the full amount is taken under the income tax credit or that the full amount is taken under this sales tax retention provision. Table 3 shows the impact by fiscal year.

Table 3: Estimated Sales Tax Retention by Fiscal Year

State Fund	FY 2024		FY 2025	
General Revenue	Up to	($4,157,229)	$0 or up to	($4,844,145)
Education (SDTF)	Up to	($1,385,743)	$0 or up to	($1,614,715)
Conservation	Up to	($173,218)	$0 or up to	($201,839)
DNR	Up to	($138,575)	$0 or up to	($161,471)
Total State Loss	Up to	($5,854,765)	$0 or up to	($6,822,170)
Local Funds				
Local Sales Tax	Up to	($5,639,973)	$0 or up to	($6,571,890)

Section 237.050

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would remove the annual payment due date and allow dogs to remain in Missouri if the local option dog tax (Section 273.060) is not paid. However, this proposal does not remove the actual local tax levy, only the statute containing the due date. Therefore, it would be possible for a local jurisdiction to still levy the tax and set their own annual due date. B&P notes that such local tax is not currently levied in any county in Missouri. This provision will not impact TSR or the calculation under Article X, Section 18(e).

Oversight does not anticipate a fiscal impact from this provision. Therefore, Oversight will reflect a zero impact in the fiscal note.

Responses regarding the proposed legislation as a whole

Oversight will show the total costs for upgrades to the Department of Revenue's sales and income tax forms and systems, and other equipment costs estimated at $67,625, as a one-time cost beginning in FY 2024.

Officials from **St Charles Community College** anticipate a negative fiscal impact. The amount can't be quantified with the information available.

Officials from the **Joint Committee on Public Employee Retirement** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Rule Promulgation

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.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY Unknown)
GENERAL REVENUE				
Revenue Reduction - §135.098 federal excise tax 100% income tax credit* p. (4)	$0	$0 or up to ($13,394,061)	$0 or up to ($13,394,061)	$0 or up to ($13,394,061)
Costs – State Tax Commission – §137.115 - Software/programming and additional FTE costs p. (11)	(Unknown, less than $200,000)	(Unknown, less than $200,000)	(Unknown, less than $200,000)	(Unknown, less than $200,000)
Revenue Reduction - §143.011 - Individual Income Tax Rate Reduction p. (19)	($143,830,348)	($343,275,623)	($368,663,571)	($522,057,242)
Revenue Reduction - §143.022 – Farming	($2,254,947)	($2,034,731)	($2,030,853)	($1,866,823)

Income Business Exemption p. (22)				
Revenue Reduction - §143.071 – Corporate Income Tax Rate Reduction p. (23)	($177,765,669	($355,531,338)	($355,531,338)	($711,062,676)
Revenue Reduction - §143.071 – Financial Institutions Tax Rate Reduction p. (24)	$0	($538,701)	($538,701)	($1,077,401)
Revenue Loss – §143.114 Employee Stock Ownership Deduction – removes sunset date p. (28)	(Unknown)	(Unknown)	(Unknown)	(Unknown)
Revenue Reduction – §143.124 - Allowance of maximum deduction to all taxpayers p. (30)	$0	($85,407,471)	($83,444,082)	($79,517,301)
Revenue Reduction – §143.125 - Allowance of maximum deduction to all taxpayers p. (34)	$0	($139,863,436)	($136,648,185)	($130,217,682)
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (37)	($7,002,500 to $54,315,000)	($8,403,000 to $65,178,000)	($8,403,000 to $65,178,000)	($8,403,000 to $65,178,000)
Revenue Reduction - §144.064.3 sales tax retention* p. (5)	Up to ($1,735,156 to $4,157,229)	$0 or up to ($4,844,145)	$0 or up to ($4,844,145)	$0 or up to ($4,844,145)
Costs – DOR p. (7)				Could exceed:
Personnel Service	($26,000)	($31,824)	($32,460)	($32,460)
Fringe Benefits	($22,473)	($27,195)	($27,427)	($27,427)

Expense & Equipment p. (6,19,22,24,30,34, & 37)	($67,625)	($570)	($582)	($582)
Total Costs -	($116,098)	($59,589)	($60,469)	($60,469)
FTE Change	1 FTE	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**Could exceed ($332,904,718 to $382,639,291)**	**Could exceed ($935,313,889 to $1,010,327,095)**	**Could exceed ($955,520,199 to $1,030,533,405)**	**Could exceed ($1,454,462,594 to $1,529,475,800)**
Estimated Net FTE Change in General Revenue	Could exceed 1 FTE	Could exceed 1 FTE	Could exceed 1 FTE	Could exceed 1 FTE
BLIND PENSION FUND				
Revenue Loss - §137.115 – reduction in property taxes from change in personal property assessed valuation method ** p. (10)	$0	Up to ($2,449,449)	Up to ($2,449,449)	Up to ($2,449,449)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**Up to ($2,449,449)**	**Up to ($2,449,449)**	**Up to ($2,449,449)**
SCHOOL DISTRICT TRUST FUND				
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (5-6)	($2,334,167 to $18,105,000)	($2,801,000 to $21,726,000)	($2,801,000 to $21,726,000)	($2,801,000 to $21,726,000)

Revenue Reduction - §144.064.3 sales tax retention* p. (5-6)	Up to ($578,385 to $1,385,743)	$0 or up to ($1,614,715)	$0 or up to ($1,614,715)	$0 or up to ($1,614,715)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**($2,912,552 to $19,490,743)**	**($2,801,000 to $23,340,715)**	**($2,801,000 to $23,340,715)**	**($2,801,000 to $23,340,715)**
CONSERVATION TRUST FUND				
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (5-6)	($291,771 to $2,263,125)	($350,125 to $2,715,750)	($350,125 to $2,715,750)	($350,125 to $2,715,750)
Revenue Reduction - §144.064.3 sales tax retention* p. (5-6)	Up to ($72,298 to $173,218)	$0 or up to ($201,839)	$0 or up to ($201,839)	$0 or up to ($201,839)
ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND	**($364,069 to $2,436,343)**	**($350,125 to $2,917,589)**	**($350,125 to $2,917,589)**	**($350,125 to $2,917,589)**
PARK, SOIL, & WATER FUND				
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (5-6)	($233,417 to $1,810,500)	($280,100 to $2,172,600)	($280,100 to $2,172,600)	($280,100 to $2,172,600)
Revenue Reduction - §144.064.3 sales tax retention* p. (5-6)	Up to ($57,839 to $138,575)	$0 or up to ($161,471)	$0 or up to ($161,471)	$0 or up to ($161,471)

ESTIMATED NET EFFECT ON PARK, SOIL, & WATER FUND	**($291,256 to $1,949,075)**	**($280,100 to $2,334,071)**	**($280,100 to $2,334,071)**	**($280,100 to $2,334,071)**

***Oversight** notes the funds impacted by §135.098 and §144.064.3 (excise tax used as a tax credit or a sales tax reduction) will change depending on whether the income tax credit or sales tax retention is utilized. An income tax credit will only impact state General Revenue, while the sales tax retention will impact all state and local funds receiving sales taxes.
** **Oversight** notes these estimates do not include farm tractors or machinery as depreciation data was not available, therefore the actual fiscal impact could exceed these figures.

FISCAL IMPACT – Local Government	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. (10-11)	$0	$0	(Unknown)	(Unknown)
Revenue Loss - §137.115.9 – motor vehicles - reduction in property taxes from change in personal property assessed valuation method ** p. (9-10)	$0	Up to ($562,586,245)	Up to ($562,586,245)	Up to ($562,586,245)
Revenue Reduction - §144.064.2 sales tax exemption of firearms and ammunition p. (6)	($9,500,058 to $73,687,350)	($11,400,070 to $88,424,820)	($11,400,070 to $88,424,820)	($11,400,070 to $88,424,820)

Revenue Reduction - §143.071 – Financial Institutions Tax Rate Reduction p. (24)	$0	($26,396,332)	($26,396,332)	($52,792,665)
Revenue Reduction - §144.064.3 sales tax retention* p. (6)	Up to ($2,354,028 to $5,639,973)	$0 or up to ($6,571,890)	$0 or up to ($6,571,890)	$0 or up to ($6,571,890)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVIONS	**Could exceed ($11,854,086 to $79,327,323)**	**Could exceed ($600,382,647 to $683,979,287)**	**Could exceed ($600,382,647 to $683,979,287)**	**Could exceed ($626,778,980 to $710,375,620)**

***Oversight** notes section 135.098.5 states a taxpayer shall not claim a tax credit pursuant to this section if the taxpayer has retained sales tax pursuant to section 144.064 for the same federal firearms excise tax paid. Oversight is unable to determine how many businesses will claim the income tax credit or the sales tax retention. Oversight will reflect the maximum potential impact under both scenarios as a $0 or up to the maximum impact estimated by DOR and B&P for each provision.

****Oversight** notes property tax revenues are designed to be relatively revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Therefore, this proposal may result in a higher tax rate relative to current law thus distributing more of the tax burden to real property owners (as motor vehicle assessed values decrease).

FISCAL IMPACT – Small Business

This proposed legislation could positively impact any small business that is obligated to pay taxes.

FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to taxation.

Section 137.115 of the proposal contains an emergency clause.

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
Department of Natural Resources
Missouri Department of Conservation
State Tax Commission
Office of the Secretary of State
Joint Committee on Public Employee Retirement
Joint Committee on Administrative Rules
County Employees Retirement Fund (CERF)
Andrew County
Barton County
Boone County
Buchannan County
Butler County
Calloway 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
St Charles Community College

Julie Morff
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May 1, 2023

Ross Strope
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May 1, 2023

KLP:LR:OD