

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1045S.01I  
 Bill No.: SB 131  
 Subject: Taxation and Revenue - Sales and Use; Firearms  
 Type: Original  
 Date: February 6, 2023

Bill Summary: This proposal exempts the sale of firearms and ammunition from sales tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	(\$10,054,878 to \$54,315,000)	(\$12,065,853 to \$65,178,000)	(\$12,065,853 to \$65,178,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$10,054,878 to \$54,315,000)</b>	<b>(\$12,065,853 to \$65,178,000)</b>	<b>(\$12,065,853 to \$65,178,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
School District Trust Fund	(\$3,351,626 to \$18,105,000)	(\$4,021,951 to \$21,726,000)	(\$4,021,951 to \$21,726,000)
Conservation Fund	(\$418,954 to \$2,263,125)	(\$502,744 to \$2,715,750)	(\$502,744 to \$2,715,750)
Park, Soil, and Water Fund	(\$335,163 to \$1,810,500)	(\$402,195 to \$2,172,600)	(\$402,195 to \$2,172,600)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(\$4,105,743 to \$22,178,625)</b>	<b>(\$4,926,890 to \$26,614,350)</b>	<b>(\$4,926,890 to \$26,614,350)</b>

Numbers within parentheses: () indicate costs or losses.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>(\$13,641,118 to \$73,687,350)</b>	<b>(\$16,369,341 to \$88,424,820)</b>	<b>(\$16,369,341 to \$88,424,820)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 144.064 Firearm & Ammunition Sales Tax Exemption**

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt the sales of firearms and ammunition 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

#### Ammunition

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

<u>State Funds</u>	FY 2024		FY 2025+	
	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)
<b>Total State Loss</b>	<b>(\$14,160,620)</b>	<b>(\$43,478,637)</b>	<b>(\$16,992,743)</b>	<b>(\$52,174,364)</b>
<u>Local Funds</u>				
Local Sales Tax	(\$13,641,118)	(\$41,883,563)	(\$16,369,341)	(\$50,260,275)

Officials from the **Department of Revenue (DOR)** note this proposal would grant a state and local sales tax exemption for firearms 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%  
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.

The Department looked into the prices of various firearms. DOR found that no single source maintains data on the amount of firearms that are sold annually. The department 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 2023 (10 months)	FY 2024
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 the department believes it can absorb the impact, however, should DOR get enough refunds claims to justify new FTE, it will seek them through the appropriations process.

**Oversight** assumes the **Department of Revenue** is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the additional work and system upgrade costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process. Officials from the DOR assume the proposal will have no fiscal impact on their organization.

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

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

Officials from the **Missouri Department of Conservation** assume this proposal would have an unknown fiscal impact. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. The Department defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

**Oversight** notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC=s sales taxes are constitutional

mandates. Oversight notes the proposed sales tax exemption would reduce the amount of sales tax revenue distributed to the Conservation Sales Tax Fund. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for MDC’s funds.

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

**Oversight** notes the proposed sales tax exemption would reduce the amount of sales tax revenue distributed to all local political subdivisions. Therefore, Oversight will note B&P and DOR’s estimates for all local political subdivisions on the fiscal note.

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

**Oversight** only reflects the responses received from state agencies and political subdivisions; however, officials from other cities and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - §144.064 sales tax exemption for firearms and ammunition	<u>(\$10,054,878 to \$54,315,000)</u>	<u>(\$12,065,853 to \$65,178,000)</u>	<u>(\$12,065,853 to \$65,178,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$10,054,878 to \$54,315,000)</u></b>	<b><u>(\$12,065,853 to \$65,178,000)</u></b>	<b><u>(\$12,065,853 to \$65,178,000)</u></b>
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Revenue Reduction</u> - §144.064 sales tax exemption for firearms and ammunition	<u>(\$3,351,626 to \$18,105,000)</u>	<u>(\$4,021,951 to \$21,726,000)</u>	<u>(\$4,021,951 to \$21,726,000)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>(\$3,351,626 to \$18,105,000)</u></b>	<b><u>(\$4,021,951 to \$21,726,000)</u></b>	<b><u>(\$4,021,951 to \$21,726,000)</u></b>



<b>CONSERVATION TRUST FUND</b>			
<u>Revenue Reduction</u> - §144.064 sales tax exemption for firearms and ammunition	<u>(\$418,954 to \$2,263,125)</u>	<u>(\$502,744 to \$2,715,750)</u>	<u>(\$502,744 to \$2,715,750)</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND</b>	<b><u>(\$418,954 to \$2,263,125)</u></b>	<b><u>(\$502,744 to \$2,715,750)</u></b>	<b><u>(\$502,744 to \$2,715,750)</u></b>
<b>PARK, SOIL, &amp; WATER FUND</b>			
<u>Revenue Reduction</u> - §144.064 sales tax exemption for firearms and ammunition	<u>(\$335,163 to \$1,810,500)</u>	<u>(\$402,195 to \$2,172,600)</u>	<u>(\$402,195 to \$2,172,600)</u>
<b>ESTIMATED NET EFFECT ON PARK, SOIL, &amp; WATER FUND</b>	<b><u>(\$335,163 to \$1,810,500)</u></b>	<b><u>(\$402,195 to \$2,172,600)</u></b>	<b><u>(\$402,195 to \$2,172,600)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Reduction</u> - §144.064 sales tax exemption for firearms and ammunition	<u>(\$13,641,118 to \$73,687,350)</u>	<u>(\$16,369,341 to \$88,424,820)</u>	<u>(\$16,369,341 to \$88,424,820)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(\$13,641,118 to \$73,687,350)</u></b>	<b><u>(\$16,369,341 to \$88,424,820)</u></b>	<b><u>(\$16,369,341 to \$88,424,820)</u></b>

FISCAL IMPACT – Small Business

Small businesses that purchase or sell firearms or ammunition could be impacted by this proposal.

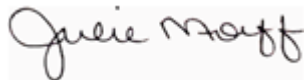
FISCAL DESCRIPTION

Beginning August 28, 2023, this act provides that all sales of firearms and ammunition made in this state shall be exempt from state and local sales taxes.


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

SOURCES OF INFORMATION

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



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February 6, 2023



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