

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1045S.04C
 Bill No.: SCS for SB 131
 Subject: Taxation and Revenue - Sales and Use; Firearms; Taxation and Revenue - Income
 Type: Original
 Date: February 22, 2023

Bill Summary: This proposal modifies provisions relating to firearms tax relief.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(\$8,817,789 to \$58,552,362)	(\$13,306,734 to \$78,631,650)	(\$13,307,614 to \$78,632,530)
Total Estimated Net Effect on General Revenue	(\$8,817,789 to \$58,552,362)	(\$13,306,734 to \$78,631,650)	(\$13,307,614 to \$78,632,530)

*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.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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)
Conservation Commission Fund (0609)	(\$364,069 to \$2,436,343)	(\$350,125 to \$2,917,589)	(\$350,125 to \$2,917,589)
Parks and Soils State Sales Tax Fund(S) (0613 & 0614)	(\$291,256 to \$1,949,075)	(\$280,100 to \$2,334,071)	(\$280,100 to \$2,334,071)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$3,567,877 to \$23,876,161)	(\$3,431,225 to \$28,592,375)	(\$3,431,225 to \$28,592,375)

Numbers within parentheses: () indicate costs or losses.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Fund	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	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
Local Government	(\$11,854,086 to \$79,327,323)	(\$11,400,070 to \$94,996,710)	(\$11,400,070 to \$94,996,710)

FISCAL ANALYSIS

ASSUMPTION

Section 135.098 Federal Firearms Excise Tax Credit

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this provision would grant an income tax credit equal to the amount of federal excise tax paid on firearms and ammunition, starting 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 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 ($\$770,836,333 \times 1.7\%$) 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.

Section 144.064.2 Firearm & Ammunition Sales Tax Exemption

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

State Funds	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)
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 Revenue (DOR)** assume 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%
 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 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.

Section 144.064.3 Sales Tax Retention

Officials from the **Office of Administration - Budget and Planning (B&P)** assume retailers may elect to retain sales tax remittances equal to the amount they paid in federal firearm and ammunition excise 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

<u>State Fund</u>	<u>TY 2023</u>	<u>TY2024</u>
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)
<u>Local Funds</u>		
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

<u>State Fund</u>	<u>FY 2024</u>		<u>FY 2025</u>	
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)
<u>Local Funds</u>				
Local Sales Tax	Up to	(\$5,639,973)	\$0 or up to	(\$6,571,890)

Bill Summary

B&P estimates that this proposal could reduce GR by \$11,790,034 to \$30,872,405 (100% tax credit usage) or by \$11,790,034 to \$35,029,634 (100% sales tax retention usage) in FY24. This proposal could also reduce TSR by \$16,604,298 to \$43,478,637 (100% tax credit usage) or by \$16,604,298 to \$49,333,402 (100% sales tax retention usage) in FY24.

Once fully implemented, this proposal could reduce GR by \$25,459,914 to \$50,440,947 (100% tax credit usage) or by \$16,909,998 to \$41,891,031 (100% sales tax retention usage). This proposal could reduce TSR by \$30,386,804 to \$65,568,425 (100% tax credit usage) or by \$23,814,913 to \$58,996,534 (100% sales tax retention usage). In addition, this proposal could reduce local revenues by \$22,941,231 to \$56,832,165 annually. Table 4 shows the estimated total impact by fund.

Table 4: Summary By Fund and Fiscal Year

<u>State Fund</u>	<u>FY 2024</u>		<u>FY 2025+</u>	
	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
General Revenue				
Sales Tax Exemption	(\$10,054,878)	(\$30,872,405)	(\$12,065,853)	(\$37,046,886)
Tax Credit	\$0	\$0	Up to (\$13,394,061)	Up to (\$13,394,061)
		Or	Or	Or
Sales Tax Retention	Up to (\$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)		(\$30,872,405)	(\$25,459,914)	(\$50,440,947)
	Up to (\$11,790,034)	Or	Or	Or
		(\$35,029,634)	(\$16,909,998)	(\$41,891,031)
Education				
Sales Tax Exemption	(\$3,351,626)	(\$10,290,802)	(\$4,021,951)	(\$12,348,962)

Sales Tax Retention	Up to (\$578,385)	Up to (\$1,385,743)	Up to (\$1,614,715)	Up to (\$1,614,715)
Total SDTF	Up to (\$3,930,011)	Up to (\$11,676,545)	Up to (\$5,636,666)	Up to (\$13,963,677)
Conservation				
Sales Tax Exemption	(\$418,953)	(\$1,286,350)	(\$502,744)	(\$1,543,620)
Sales Tax Retention	Up to (\$72,298)	Up to (\$173,218)	Up to (\$201,839)	Up to (\$201,839)
Total Conservation	Up to (\$491,251)	Up to (\$1,459,568)	Up to (\$704,583)	Up to (\$1,745,459)
DNR				
Sales Tax Exemption	(\$335,163)	(\$1,029,080)	(\$402,195)	(\$1,234,896)
Sales Tax Retention	Up to (\$57,839)	Up to (\$138,575)	Up to (\$161,471)	Up to (\$161,471)
Total DNR	Up to (\$393,002)	Up to (\$1,167,655)	Up to (\$563,666)	Up to (\$1,396,367)
Total State Revenues (tax credit vs. sales tax retention)		(\$43,478,637)	(\$30,386,804)	(\$65,568,425)
	(\$16,604,298)	Or	Or	Or
		(\$49,333,402)	(\$23,814,913)	(\$58,996,534)
Local Funds				
Sales Tax Exemption	-	(\$41,883,563)	(\$16,369,341)	(\$50,260,275)
Sales Tax Retention	Up to (\$2,354,028)	Up to (\$5,639,973)	Up to (\$6,571,890)	Up to (\$6,571,890)
Total Local Funds	Up to (\$15,995,146)	Up to (\$47,523,536)	Up to (\$22,941,231)	Up to (\$56,832,165)

Officials from the **Department of Revenue (DOR)** assume retailers 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 retailer.

This provision in Section 135.098, will allow retailers 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 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 ($\$770,836,333 \times 1.7\%$) was paid in federal firearms excise tax by Missourians. Since this is a refundable tax credit, DOR assumes this will result in a loss to general revenue of \$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

State Fund	FY 2024		FY 2025+	
	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	Up to (\$13,394,061)	Up to (\$13,394,061)
		Or	Or	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)

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 DOR 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

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 costs for computer upgrades related to this proposal. However, given the number of returns which might be affected Oversight will show the above-mentioned 1 FTE for purposes of this fiscal note. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

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

The **City of Springfield** anticipates a negative fiscal impact of an undetermined amount.

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

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.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE*			
<u>Revenue Reduction</u> - §135.098 federal excise tax 100% income tax credit* p. (3)	\$0	\$0 or up to (\$13,394,061)	\$0 or up to (\$13,394,061)
<u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (3-7)	(\$7,002,500 to \$54,315,000)	(\$8,403,000 to \$65,178,000)	(\$8,403,000 to \$65,178,000)
<u>Revenue Reduction</u> - §144.064.3 sales tax retention* p. (7-14)	Up to (\$1,735,156 to \$4,157,229)	\$0 or up to (\$4,844,145)	\$0 or up to (\$4,844,145)
<u>Costs – DOR p. (13)</u>			
Personnel Service	(\$26,000)	(\$31,824)	(\$32,460)
Fringe Benefits	(\$22,473)	(\$27,195)	(\$27,427)
Expense & Equipment	(\$31,660)	(\$570)	(\$582)
<u>Total Costs -</u>	<u>(\$80,133)</u>	<u>(\$59,589)</u>	<u>(\$60,469)</u>
FTE Change	1 FTE	1 FTE	1 FTE

ESTIMATED NET EFFECT ON GENERAL REVENUE*	<u>(\$8,817,789 to \$58,552,362)</u>	<u>(\$13,306,734 to \$78,631,650)</u>	<u>(\$13,307,614 to \$78,632,530)</u>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (3-7)	(\$2,334,167 to \$18,105,000)	(\$2,801,000 to \$21,726,000)	(\$2,801,000 to \$21,726,000)
<u>Revenue Reduction</u> - §144.064.3 sales tax retention* p. (7-14)	Up to (\$578,385 to \$1,385,743)	\$0 or up to (\$1,614,715)	\$0 or up to (\$1,614,715)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$2,912,552 to \$19,490,743)</u>	<u>(\$2,801,000 to \$23,340,715)</u>	<u>(\$2,801,000 to \$23,340,715)</u>
CONSERVATION TRUST FUND			
<u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (3-7)	(\$291,771 to \$2,263,125)	(\$350,125 to \$2,715,750)	(\$350,125 to \$2,715,750)
<u>Revenue Reduction</u> - §144.064.3 sales tax retention* p. (7-14)	Up to (\$72,298 to \$173,218)	\$0 or up to (\$201,839)	\$0 or up to (\$201,839)
ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND	<u>(\$364,069 to \$2,436,343)</u>	<u>(\$350,125 to \$2,917,589)</u>	<u>(\$350,125 to \$2,917,589)</u>
PARK, SOIL, & WATER FUND			
<u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (3-7)	(\$233,417 to \$1,810,500)	(\$280,100 to \$2,172,600)	(\$280,100 to \$2,172,600)
<u>Revenue Reduction</u> - §144.064.3 sales tax retention* p. (7-14)	Up to (\$57,839 to \$138,575)	\$0 or up to (\$161,471)	\$0 or up to (\$161,471)

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

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (3-7)	(\$9,500,058 to \$73,687,350)	(\$11,400,070 to \$88,424,820)	(\$11,400,070 to \$88,424,820)
<u>Revenue Reduction</u> - §144.064.3 sales tax retention* p. (7-14)	Up to (\$2,354,028 to \$5,639,973)	\$0 or up to (\$6,571,890)	\$0 or up to (\$6,571,890)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(\$11,854,086 to \$79,327,323)</u>	<u>(\$11,400,070 to \$94,996,710)</u>	<u>(\$11,400,070 to \$94,996,710)</u>

***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.

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

FIREARMS EXCISE TAX INCOME TAX CREDIT

For all tax years beginning on or after January 1, 2024, this act authorizes a tax credit for taxpayers making sales of firearms or ammunition. The tax credit shall be equal to the amount of the federal firearms and ammunition excise tax imposed on the sale of such firearms and ammunition sold by the taxpayer during the tax year.

Tax credits authorized by the act shall be refundable, but shall not be transferred, sold, or assigned. A taxpayer shall not be able to claim a tax credit pursuant to the act if the taxpayer also retained sales taxes pursuant to the act for the same federal firearms excise tax paid.

This act shall sunset on December 31, 2029, unless reauthorized by the General Assembly.
(Section 135.098)

FIREARMS EXCISE TAX SALES TAXES

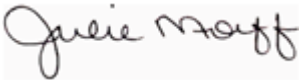
Beginning August 28, 2023, this act provides that all sales of firearms and ammunition made in this state shall be exempt from state and local sales taxes.

Beginning August 28, 2023, from every remittance of sales tax to the Director of Revenue made by a person selling firearms or ammunition, the person shall be entitled to deduct and retain an amount equal to the amount of the federal firearms and ammunition excise tax paid by such person on the sale of ammunition and firearms sold by such person.

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

SOURCES OF INFORMATION

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



Julie Morff
Director
February 22, 2023



Ross Strope
Assistant Director
February 22, 2023