

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1045S.05P  
 Bill No.: Perfected SS for SCS for SB 131  
 Subject: Taxation and Revenue - Sales and Use; Firearms; Taxation and Revenue - Income  
 Type: Original  
 Date: March 2, 2023

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

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>  |   |   |   |
|--|---|---|---|
| FUND AFFECTED  | FY 2024   | FY 2025   | FY 2026   |
| General Revenue Fund*                                | (\$32,602,720 to could exceed \$103,368,033)        | (\$38,089,295 to could exceed \$138,339,390)        | (\$38,091,055 to could exceed \$138,341,150)        |
| <b>Total Estimated Net Effect on General Revenue</b> | <b>(\$32,602,720 to could exceed \$103,368,033)</b> | <b>(\$38,089,295 to could exceed \$138,339,390)</b> | <b>(\$38,091,055 to could exceed \$138,341,150)</b> |

\*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 option 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.

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>              |  |  |  |
|---|--|--|--|
| FUND AFFECTED   | FY 2024  | FY 2025  | FY 2026  |
| School District Trust Fund (0688)                             | (\$123,355,920 to could exceed \$146,944,358)        | (\$162,757,154 to could exceed \$191,709,164)        | (\$162,757,154 to could exceed \$191,709,164)        |
| Conservation Commission Fund (0609)                           | (\$15,337,129 to could exceed \$18,368,045)          | (\$20,342,668 to could exceed \$23,963,646)          | (\$20,342,668 to could exceed \$23,963,646)          |
| Parks and Soils State Sales Tax Fund(s) (0613 & 0614)         | (\$12,335,592 to could exceed \$14,694,436)          | (\$16,293,505 to could exceed \$19,173,161)          | (\$16,293,505 to could exceed \$19,173,161)          |
| <b>Total Estimated Net Effect on <u>Other</u> State Funds</b> | <b>(\$151,028,641 to could exceed \$180,006,839)</b> | <b>(\$199,393,327 to could exceed \$234,845,971)</b> | <b>(\$199,393,327 to could exceed \$234,845,971)</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> |
| General Revenue Fund                                      | 1 FTE          | 1 FTE          | 1 FTE          |
|   |                |                |                |
| <b>Total Estimated Net Effect on FTE</b>                  | <b>1 FTE</b>   | <b>1 FTE</b>   | <b>1 FTE</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>(\$1,042,108,225 to<br/>could exceed<br/>\$1,114,697,608)</b> | <b>(\$1,353,942,210 to<br/>could exceed<br/>\$1,469,101,732)</b> | <b>(\$1,353,942,210 to<br/>could exceed<br/>\$1,469,101,732)</b> |

## FISCAL ANALYSIS

### ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

### SA 7 - Section 32.115 Affordable Housing Tax Credit

Officials from the **Department of Revenue (DOR)** note the Affordable Housing tax credit program is a two part credit with an \$11 million combined cap. The first part of the credit is for businesses that are making contributions to affordable housing. This part of the credit is limited to \$10 million of the cap. The second part of the credit is for businesses that make contributions to neighborhood organizations and this part of the credit is limited to \$1 million of the cap. This proposal allows the contributions to the neighborhood organizations to use any remaining cap space not used by the businesses making contributions to affordable housing. Therefore, the \$1 million cap can be increased if the \$10 million doesn't use all their allotment. Since this proposal just allows the sharing of a cap this would not have any additional fiscal impact on the state.

For informational purposes, the Department is providing the amount of the Affordable Housing Tax Credit that has been authorized, issued and redeemed over the last few years.

| Year          | Authorized      | Issued          | Total Redeemed  |
|---------------|-----------------|-----------------|-----------------|
| FY 2022       | \$4,835,176.00  | \$10,482,025.00 | \$3,619,925.08  |
| FY 2021       | 978,796.00      | \$3,592,427.00  | \$4,119,705.33  |
| FY 2020       | \$10,971,408.00 | \$4,510,701.00  | \$4,025,790.93  |
| FY 2019       | \$4,253,693.00  | \$3,308,659.00  | \$5,001,344.36  |
| FY 2018       | \$4,676,726.00  | \$6,145,103.00  | \$4,752,091.61  |
| FY 2017       | \$10,347,442.00 | \$7,386,034.00  | \$10,172,299.92 |
| FY 2016       | \$10,988,370.00 | \$13,171,092.00 | \$8,484,672.81  |
| FY 2015       | \$10,901,753.00 | \$8,717,177.00  | \$3,358,807.75  |
| FY 2014       | \$8,197,923.00  | \$4,844,279.00  | \$5,620,749.73  |
| FY 2013       | \$6,495,974.00  | \$4,967,887.00  | \$7,406,987.96  |
| FY 2012       | \$4,871,580.00  | \$5,990,591.00  | \$5,629,465.92  |
| <b>TOTALS</b> | \$77,518,841    | \$73,115,975    | \$62,191,841    |

This proposal will not a fiscal impact on the Department of Revenue.

**Oversight** notes that Section(s) 32.111 – Affordable Housing Assistance Tax Credit Program and 32.112 Neighborhood Assistance Program (NAP) both are part of Neighborhood Assistance Act under RSMo 32.100 thru 32.125 which share the same \$11 million cap.

**Oversight** notes SA 7 allows for moneys appropriated for the Section 32.111 (Affordable Housing Assistance Tax Credit at \$10 million cap per fiscal year) to be transferred, as long as the moneys are not fully utilized in the fund within fiscal year, to aid the purpose of the Section 32.112 (Neighborhood Assistance Program at \$1 million cap per fiscal year).

**Oversight** notes that SA 7 allows for transfer between the funds without additional appropriation needed. Therefore, for the purpose of this fiscal note, **Oversight** will note zero impact to the general revenue, or other state funds for this section, in the fiscal note.

### **Section 135.098 Federal Firearms Excise Tax Credit**

In response to a previous version (SCS SB 131), 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.

### **SA 8 - Section 135.098 Database on Firearms**

**Oversight** notes that SA 8 states rules promulgated pursuant to this subsection shall not be construed to create or authorize the creation of any database that would include the names of any person who purchases, sells, or uses any firearms or ammunition.

Officials from the **Department of Revenue** assume this amendment 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 this section.

#### **SA 4 Section 144.014 Food Sales Tax Exemption**

In response to a similar proposal, (SB 161), officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would exempt food from state and local sales tax beginning August 28, 2023. B&P notes that currently the state tax rate on non-prepared food is 1.225%; with 1% going to the School District Trust Fund, 0.125% going to Conservation, and 0.1% going to the Parks, Soil and Water Funds.

In FY22, there were \$15,424,112,225 in taxable food sales within Missouri. B&P estimates that approximately \$154,241,122 in food related sales taxes was distributed to the School District Trust Fund, \$19,280,140 to Conservation, and \$15,424,112 to the Parks, Soil and Water Funds.

Based on information from DOR, during FY22 \$1,316,606,800 in local sales tax money was collected from the retail sale of food. The following table shows the amounts collected by district type.

Table 1: Local Sales Tax  
Collection on Food in  
FY22

| District   | Sales Tax       |
|------------|-----------------|
| City       | \$676,144,528   |
| City - TIF | \$14,806,188    |
| County     | \$503,601,896   |
| District   | \$122,054,187   |
| Total      | \$1,316,606,800 |

B&P notes that “districts” include CIDs, TIDs, ambulance districts, emergency service districts, fire protection districts, hospital districts, PIDs, library districts, jail districts, TDDs, and zoological districts.

B&P also notes that while this provision would become effective August 28, 2023, sales tax distributions are one month behind collections. Therefore, B&P estimates that this provision may reduce TSR by \$151,025,549 in FY24. Once fully implemented, this provision could reduce TSR by \$201,367,399 annually beginning in FY25. This provision could also reduce local sales tax collections by \$1,316,606,800 once fully implemented.

B&P further notes that DOR is granted a 1% collection fee on sales taxes distributed to local jurisdictions, except CIDs, TDDs, and Port districts. Therefore, this provision could reduce general revenue by \$9,316,518 in FY24. Once fully implemented, in FY25, this provision may

reduce general revenue by \$12,422,024 annually. Table 2 shows the estimated impact by state and local fund.

Table 2: Estimated Grocery Tax Loss by Fund

|                           | FY 2024                | FY 2025+                 |
|---------------------------|------------------------|--------------------------|
| <b><u>State Fund</u></b>  |                        |                          |
| GR (1% fee)               | (\$9,316,518)          | (\$12,422,024)           |
| Education                 | (\$115,680,842)        | (\$154,241,122)          |
| Conservation              | (\$14,460,105)         | (\$19,280,140)           |
| DNR                       | (\$11,568,084)         | (\$15,424,112)           |
| <b>Total State Loss</b>   | <b>(\$151,025,549)</b> | <b>(\$201,367,399)</b>   |
| <b><u>Local Funds</u></b> |                        |                          |
| Cities                    | (\$507,108,396)        | (\$676,144,528)          |
| Cities - TIF              | (\$11,104,641)         | (\$14,806,188)           |
| Counties                  | (\$377,701,422)        | (\$503,601,896)          |
| CIDs                      | (\$28,436,951)         | (\$37,915,935)           |
| TDDs                      | (\$27,349,920)         | (\$36,466,560)           |
| Ambulance                 |                        |                          |
| Districts                 | (\$18,515,053)         | (\$24,686,738)           |
| Fire Districts            | (\$7,199,826)          | (\$9,599,769)            |
| Emergency                 |                        |                          |
| Districts                 | (\$4,503,971)          | (\$6,005,294)            |
| Other Districts           | (\$5,534,919)          | (\$7,379,892)            |
| <b>Total Local Loss</b>   | <b>(\$987,455,100)</b> | <b>(\$1,316,606,800)</b> |

Officials from the **Department of Revenue (DOR)** note in Section 144.020 items that are sold are subject to state and local sales and use tax. The state sales tax is 4.225%. That sales tax is broken down as:

|                           |        |
|---------------------------|--------|
| General Revenue           | 3.000% |
| School District           | 1.000% |
| Conservation Commission   | 0.125% |
| Parks, Soil & Water Funds | 0.100% |

In 1997, Section 144.014 was adopted and it exempted the collection of the 3% general revenue sales tax while leaving the remaining 1.225% sales tax in place. This provision would exempt food from the remaining 1.225% state and the 4.07% local sales and use taxes.

This provision would become effective on August 28, 2023. It should be noted that sales tax is distributed one month behind the collection. Therefore, DOR will show the loss as 9 months due to the delayed distribution.

The Department notes that in FY 22 food reported \$15,424,112,225 in taxable sales. Therefore, the School District Trust Fund received \$154,241,122, the Conservation Commission Fund received \$19,280,140 and the Parks and Soil & Water Funds received \$15,424,112 in state sales tax.

Additionally, numerous other local districts received sales tax from food. For fiscal note purposes, the Department uses a local sales tax rate of 4.07% based on the local weighted average to calculate sales tax.

The Department notes the estimated local sales tax collected by type of district.

| District   | Sales Tax       |
|------------|-----------------|
| City       | \$676,144,528   |
| City – TIF | \$14,806,188    |
| County     | \$503,601,896   |
| District   | \$122,054,187   |
| Total      | \$1,316,606,799 |

The Department is allowed to retain a 1% collection fee off some of the local sales and use tax DOR collects. Community Improvement Districts (CID), Transportation Development Districts (TDD) and Port Authority Districts do not have the 1% retained even though most other districts do. For those districts in which DOR collects the 1% fee, DOR assumes a loss to general revenue of \$9,316,518 in FY 2024 and \$12,422,024 in FY 2025 and beyond from the 1% fee.

The expected loss to the state funds and locals is estimated:

| <b><u>State Fund</u></b>  | FY24            | FY25+             |
|---------------------------|-----------------|-------------------|
|                           | High            | High              |
| GR (1% fee)               | (\$9,316,518)   | (\$12,422,024)    |
| School District           | (\$115,680,842) | (\$154,241,122)   |
| Conservation              | (\$14,460,105)  | (\$19,280,140)    |
| DNR                       | (\$11,568,084)  | (\$15,424,112)    |
| Total State Loss          | (\$151,025,549) | (\$201,367,399)   |
|                           |                 |                   |
| <b><u>Local Funds</u></b> |                 |                   |
| City                      | (\$507,108,396) | (\$676,144,528)   |
| City - TIF                | (\$11,104,641)  | (\$14,806,188)    |
| County                    | (\$377,701,422) | (\$503,601,896)   |
| CID                       | (\$28,436,951)  | (\$37,915,935)    |
| TDD                       | (\$27,349,920)  | (\$36,466,560)    |
| Ambulance                 | (\$18,515,054)  | (\$24,686,738)    |
| Fire                      | (\$7,199,827)   | (\$9,599,769)     |
| Emergency                 | (\$4,503,971)   | (\$6,005,294)     |
| Other                     | (\$5,534,919)   | (\$7,379,892)     |
| Total Local Loss          | (\$987,455,100) | (\$1,316,606,800) |

The Department will need to modify their forms, website and computer programs. These changes are estimated at \$7,163.

**Oversight** notes this provision will become effective August 28, 2023. Oversight notes that sales tax is distributed one month behind the collection. Therefore, Oversight will show the fiscal impact for FY 2024 for nine months. Oversight notes the estimate for the impact to locals appears to be higher than expected.

**Oversight** notes the Parks and 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 exemption of "food" from sales tax would decrease the amount of sales tax revenue to the Parks and Soil, and Water Sales Tax



Funds. Therefore, Oversight will note B&P and DOR’s estimates for DNR’s funds on the fiscal note.

In response to a similar proposal, (SB 161), 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 exemption of “food” from sales tax would decrease the amount of sales tax revenue to the Conservation Sales Tax Fund. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for MDC’s funds.

**Oversight** notes the proposed exemption of “food” from local sales tax would decrease the amount of sales tax revenue received by local political subdivisions. Therefore, Oversight will note B&P and DOR’s estimates for all local political subdivisions on the fiscal note.

Officials from the **St Louis Budget Division** assume a this provision would result in an estimated loss of \$17.1 million based on fiscal year ending June 30, 2022 sales tax collections. **Oversight** notes officials from B&P and DOR both assume this provision will have a negative fiscal impact on both state and local revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR’s and B&P’s estimated impact in the fiscal note.

**SA 1 Section 144.030.2(47) Diaper Sales Tax Exemption**

Officials from the **Department of Revenue (DOR)** note that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from \$0.16 per diaper for generics to \$0.60 for name brand. Prices of diapers also depend on the size of the diaper. Estimates by various children’s organizations indicate that an infant in the first year of life goes through 2,500 diapers. The next two years as toddlers they go through 1,500 diapers annually.

| Wearing Diaper       | How Many | Low Price per Diaper | High Price per Diaper | Total Cost Low | Total Cost High |
|----------------------|----------|----------------------|-----------------------|----------------|-----------------|
| First Year (Size 1)  | 2,500    | 0.16                 | 0.31                  | 400            | 775             |
| Second Year (Size 3) | 1,500    | 0.18                 | 0.38                  | 270            | 570             |
| Third Year (Size 5)  | 1,500    | 0.29                 | 0.60                  | 435            | 900             |

Based on the Department of Health and Senior Services, the average number of resident births from 2018-2020 was 71,554. Given that 3 years' worth of children are wearing diapers in any one year (1 set of infants and 2 sets of toddlers) DOR estimates the following:

|                               |             |
|-------------------------------|-------------|
| Births Annually               | 71,554      |
| # of kids in Diapers Annually | 214,662     |
| # of Diapers Annually         |             |
| infant                        | 178,885,000 |
| toddler (2yrs)                | 214,662,000 |
| total (kids * diapers)        | 393,547,000 |

DOR notes since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

| State Funds        | FY 2024 (10 months) |               | FY 2025+      |               |
|--------------------|---------------------|---------------|---------------|---------------|
|                    | Low                 | High          | Low           | High          |
| General Revenue    | (\$1,976,679)       | (\$4,015,968) | (\$2,372,015) | (\$4,819,162) |
| School Districts   | (\$658,893)         | (\$1,338,656) | (\$790,672)   | (\$1,606,387) |
| Conservation       | (\$80,714)          | (\$163,985)   | (\$96,857)    | (\$196,782)   |
| Park, Soil & Water | (\$65,889)          | (\$133,866)   | (\$79,067)    | (\$160,639)   |
| Local Funds        | (\$2,681,695)       | (\$5,448,330) | (\$3,218,034) | (\$6,537,996) |

DOR notes approximately one third of adults age 65 and older have moderate to severe urinary incontinence and 6 percent had moderate to severe bowl incontinence. According the United State Census Bureau 2020 population report, 1,033,384 individuals residing in Missouri were 65 or over. The Department notes that it is estimated that people with minor to moderate incontinence wear approximately 4 diapers per day while those with those with full urinary or fecal incontinence wear 6 diapers per day. The Department estimates that approximately 341,017 individuals aged 65 and over would utilize the four adult urinary incontinence diapers while 62,003 would wear 6 adult diapers daily.

The average cost for urinary incontinence diapers is \$1.33 per diaper.

| Number of people | # of Diapers | Days per year | Total Diapers per person | Price per diaper | Total Sales |
|------------------|--------------|---------------|--------------------------|------------------|-------------|
| 279,014          | 4            | 365           | 1460                     | 1.33             | 541,788,764 |
| 62,003           | 6            | 365           | 2190                     | 1.33             | 180,596,255 |
|                  |              |               |                          |                  | 722,385,018 |

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

| State Funds        | FY 2024 (10 months) | FY 2025+       |
|--------------------|---------------------|----------------|
| General Revenue    | (\$18,059,625)      | (\$21,671,551) |
| School Districts   | (\$6,019,875)       | (\$7,223,850)  |
| Conservation       | (\$752,484)         | (\$902,981)    |
| Park, Soil & Water | (\$601,988)         | (\$722,385)    |
|                    |                     |                |
| Local Funds        | (\$24,500,892)      | (\$29,401,070) |

Officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would exempt all sales of diapers from sales tax beginning August 28, 2023.

Based on research, B&P found that the average amount spent on diapers was \$1,000 during the first year and then \$500 to \$900 per year until toilet trained. Based on information from the University of Michigan Hospital, the average age until children are toilet trained is 2.5 years. Based on information provided by the United State Census 2020 population estimates (the most recent complete year available), there were approximately 217,943 children living in Missouri ages 0-2 years old, with 71,649 being less than one year old.

Therefore, B&P estimates total sales of \$144,796,000 [(71,649 x \$1,000) + (146,294 children x \$500)] up to \$194,535,960 [(71,649 x \$1,000) + (146,294 children x \$900)] may be impacted by this provision. B&P estimates that this provision could reduce TSR by \$6,117,631 to \$8,219,144 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by \$5,893,197 to \$7,917,614 annually.

Diaper (Adult) Sales Tax Exemption

According to research completed by the CDC, approximately 25% of adults age 65 and up had moderate to severe urinary incontinence and 8% had moderate to severe bowel incontinence. B&P notes that according the United State Census 2020 population (the most recent complete year available) estimates there were approximately 1,089,714 individuals residing in Missouri age 65 and over.

Based on these numbers, B&P estimates that approximately 272,429 (1,089,714 x 25%) individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 87,177 (1,089,714 x 8%) individuals residing in Missouri age 65 and over would utilize adult bowel incontinence diapers.

Based on information from a budgeting website, the average cost for urinary incontinence diapers is \$100 to \$240 per month, for a yearly cost of \$1,200 to \$2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is \$70 to \$210 per month, for a yearly cost of \$840 to \$2,520.

B&P estimates that total annual sales for urinary incontinence adult diapers would be approximately \$326,914,200 (272,429 people x \$1,200 annual cost) up to \$784,594,080 (272,429 people x \$2,880 annual cost).

B&P further estimates that the total annual sales for bowel incontinence adult diapers would be \$73,228,781 (87,177 people x \$840 annual cost) up to \$219,686,342 (87,177 people x \$2,520 annual cost).

Therefore, B&P estimates total sales of \$400,142,981 (\$326,914,200 + \$73,228,781) up to \$1,004,280,422 (\$784,594,080 + \$219,686,342) may be impacted by this provision. B&P estimates that this provision could reduce TSR by \$16,906,041 to \$42,430,848 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by \$16,285,819 to \$40,874,213 annually.

**SA 1 Section 144.030.2(48) Feminine Hygiene Product Sales Tax Exemption**

Officials from the **Department of Revenue** note information from numerous sources indicates that a woman menstruates 500 times in her lifetime, usually between the ages of 13-51. The average length of a period is 3-7 days. Sources indicate that a woman uses the following:

|                   | Number per cycle | Number per year | Number in Box | Boxes per year |
|-------------------|------------------|-----------------|---------------|----------------|
| Tampons           | 20               | 260             | 36            | 7.22           |
| Pads/Panty Liners | 5                | 65              | 36            | 1.81           |

Note a woman has 13 cycles a year (28 day cycle)/352 days a year.

The price per tampons and pads vary. DOR used a low and high price when determining the fiscal impact.

|                   | Price Low | Price High | Total Cost Low | Total Cost High |
|-------------------|-----------|------------|----------------|-----------------|
| Tampons           | \$7.00    | \$10.00    | \$50.56        | \$72.22         |
| Pads/Panty Liners | \$7.00    | \$10.00    | \$12.64        | \$18.06         |
|                   |           |            | \$63.19        | \$90.28         |

Using information from the US Census Bureau (2020 ACS 5 year estimates), DOR calculated the number of women having a period in Missouri (those from 13-51) as 1,543,060.

Since this would start on August 28, 2023, there would still be two months in FY 2024 in which the tax would be collected. The remaining 10 months would result in a loss to the state sales tax funds and local funds of the following:

|                    | FY 2024 (10 months) |               | FY 2025 +     |               |
|--------------------|---------------------|---------------|---------------|---------------|
|                    | Low                 | High          | Low           | High          |
| General Revenue    | (\$2,437,820)       | (\$3,482,601) | (\$2,925,384) | (\$4,179,121) |
| School             | (\$812,607)         | (\$1,160,867) | (\$975,128)   | (\$1,393,040) |
| Conservation       | (\$101,576)         | (\$145,108)   | (\$121,891)   | (\$174,130)   |
| Park, Soil & Water | (\$81,261)          | (\$116,087)   | (\$97,513)    | (\$139,304)   |
|                    | \$0                 | \$0           | \$0           | \$0           |
| Locals             | (\$3,307,310)       | (\$4,724,728) | (\$3,968,772) | (\$5,669,674) |

In response to a similar proposal, (SCS SB 73 & 162), officials from the **Office of Administration - Budget and Planning (B&P)** note this provision would exempt all sales of feminine hygiene products from sales tax beginning August 28, 2023.

B&P notes based on information from multiple sites, B&P estimates that women purchase an average of 6.8 to 7.2 boxes of tampons (average price \$7 to \$15) and 1.7 to 1.8 boxes (average price \$6 to \$15) of pads and liners per year (using the average cycle length of 28 to 30 days). B&P was also able to determine that the average age for menstruation is 12-51, and based on data provided by the United State Census 2020 population estimates (the most recent complete year available), there are approximately 1,552,606 woman between those ages residing in Missouri.

Therefore, B&P estimates total sales of \$89,202,965 to \$210,826,336 may be impacted by this provision. B&P estimates that this provision could reduce TSR by \$3,768,825 to \$8,907,413 annually. Using the population weighted average sales tax rate of 4.07% for 2022, B&P further estimates that this provision could reduce local sales tax collections by \$3,630,561 to \$8,580,632 annually.

DOR notes this provision would require one time computer programming changes and form changes. This is estimated to cost \$7,193.

DOR notes this provision will reduce state and local revenues by the following:

| State Funds      | FY 2024 (10 months) |                | FY 2025+       |                |
|------------------|---------------------|----------------|----------------|----------------|
|                  | Low                 | High           | Low            | High           |
| General Revenue  | (\$22,474,125)      | (\$25,558,194) | (\$26,968,950) | (\$30,669,833) |
| School Districts | (\$7,491,375)       | (\$8,519,398)  | (\$8,989,650)  | (\$10,223,278) |
| Conservation     | (\$934,775)         | (\$1,061,578)  | (\$1,121,730)  | (\$1,273,894)  |

|                    |                |                |                |                |
|--------------------|----------------|----------------|----------------|----------------|
| Park, Soil & Water | (\$749,138)    | (\$851,940)    | (\$898,965)    | (\$1,022,328)  |
|                    |                |                |                |                |
| Local Funds        | (\$30,489,896) | (\$34,673,950) | (\$36,587,876) | (\$41,608,740) |

B&P estimates that this provision may reduce TSR by \$22,327,081 to \$49,631,171 during FY24. Once fully implemented in FY25, this provision may reduce TSR by \$26,792,497 to \$59,557,405 annually. In addition, this provision could reduce local sales taxes by \$25,809,577 to \$57,372,459 annually. Table 1 shows the estimated impact by provision and fund.

Table 1: Total Estimated Loss by Provision and Fund

| <b>State Fund</b>       | FY24                |                     | FY25+               |                     |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| General Revenue         |                     |                     |                     |                     |
| Feminine Hygiene        | (2,230,074)         | (5,270,658)         | (2,676,089)         | (6,324,790)         |
| Diapers - Child         | (3,619,900)         | (4,863,399)         | (4,343,880)         | (5,836,079)         |
| Diapers - Adult         | (10,003,575)        | (25,107,011)        | (12,004,289)        | (30,128,413)        |
| <b>Total GR Loss</b>    | <b>(15,853,549)</b> | <b>(35,241,068)</b> | <b>(19,024,258)</b> | <b>(42,289,282)</b> |
| Education               |                     |                     |                     |                     |
| Feminine Hygiene        | (743,358)           | (1,756,886)         | (892,030)           | (2,108,263)         |
| Diapers - Child         | (1,206,633)         | (1,621,133)         | (1,447,960)         | (1,945,360)         |
| Diapers - Adult         | (3,334,525)         | (8,369,004)         | (4,001,430)         | (10,042,804)        |
| Total Education Loss    | (5,284,516)         | (11,747,023)        | (6,341,419)         | (14,096,427)        |
| Conservation            |                     |                     |                     |                     |
| Feminine Hygiene        | (92,920)            | (219,611)           | (111,504)           | (263,533)           |
| Diapers - Child         | (150,829)           | (202,642)           | (180,995)           | (243,170)           |
| Diapers - Adult         | (416,816)           | (1,046,125)         | (500,179)           | (1,255,351)         |
| Total Conservation Loss | (660,565)           | (1,468,378)         | (792,677)           | (1,762,053)         |
| DNR                     |                     |                     |                     |                     |
| Feminine Hygiene        | (74,336)            | (175,689)           | (89,203)            | (210,826)           |
| Diapers - Child         | (120,663)           | (162,113)           | (144,796)           | (194,536)           |
| Diapers - Adult         | (333,452)           | (836,900)           | (400,143)           | (1,004,280)         |
| Total DNR Loss          | (528,452)           | (1,174,702)         | (634,142)           | (1,409,643)         |
| <b>Total TSR Loss</b>   | <b>(22,327,081)</b> | <b>(49,631,171)</b> | <b>(26,792,497)</b> | <b>(59,557,405)</b> |
| <b>Local Funds</b>      |                     |                     |                     |                     |
| Feminine Hygiene        | (3,025,467)         | (7,150,527)         | (3,630,561)         | (8,580,632)         |
| Diapers - Child         | (4,910,998)         | (6,598,011)         | (5,893,197)         | (7,917,614)         |
| Diapers - Adult         | (13,571,516)        | (34,061,844)        | (16,285,819)        | (40,874,213)        |

|                         |                     |                     |                     |                     |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Total Local Loss</b> | <b>(21,507,981)</b> | <b>(47,810,382)</b> | <b>(25,809,577)</b> | <b>(57,372,459)</b> |
|-------------------------|---------------------|---------------------|---------------------|---------------------|

**Oversight** notes both DOR & B&P assume this provision 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 low and maximum impact of this provision.

**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 decrease 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.

In response to a similar proposal (SB 73), officials from the **Missouri Department of Conservation** assume this provision 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 provision.

**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 decrease 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.

**Oversight** notes the above local political subdivisions stated this provision would have a negative fiscal impact on their respective cities of an indeterminate amount. Therefore, Oversight will note B&P and DOR's estimates for all local political subdivisions on the fiscal note.

### **Section 144.064.2 Firearm & Ammunition Sales Tax Exemption**

In response to a previous version (SCS SB 131), 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 provision 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

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

Officials from the **Department of Revenue (DOR)** assume this provision 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 provision.

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 provision.

The Department notes this provision 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 provision 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 provision 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**

In response to a previous version (SCS SB 131), 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 provision 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 provision 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 provision 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 provision 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 provision 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)   |
| <b>Total GR (tax credit vs. sales tax retention)</b> |                             | <b>(\$30,872,405)</b> | <b>(\$25,459,914)</b> | <b>(\$50,440,947)</b> |
|  | Up to <b>(\$11,790,034)</b> | <b>Or</b>             | <b>Or</b>             | <b>Or</b>             |
|  |                             | <b>(\$35,029,634)</b> | <b>(\$16,909,998)</b> | <b>(\$41,891,031)</b> |
| 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)        |
| <b>Conservation</b>  |                             |                             |                             |                             |
| 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)         |
| <b>DNR</b>   |                             |                             |                             |                             |
| 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)         |
| <b>Total State Revenues (tax credit vs. sales tax retention)</b> |                             | <b>(\$43,478,637)</b>       | <b>(\$30,386,804)</b>       | <b>(\$65,568,425)</b>       |
|  | <b>(\$16,604,298)</b>       | Or                          | Or                          | Or                          |
|  |                             | <b>(\$49,333,402)</b>       | <b>(\$23,814,913)</b>       | <b>(\$58,996,534)</b>       |
| <b>Local Funds</b>   |                             |                             |                             |                             |
| 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)         |
| <b>Total Local Funds</b>   | <b>Up to (\$15,995,146)</b> | <b>Up to (\$47,523,536)</b> | <b>Up to (\$22,941,231)</b> | <b>Up to (\$56,832,165)</b> |

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 ( $\$770,836,333 * 1.7\%$ ) 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 provision 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 provision 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

| <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) |
| 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

| <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) |
| 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

| <u>State Fund</u>                   | 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) |



|  |                       |              |   |              |   |              |  |
|--|-----------------------|--------------|---|--------------|---|--------------|--|
| Sales Tax Retention  | (\$1,735,156)         | Up to        | Or<br>(\$4,157,229)   | Up to        | Or<br>(\$4,844,145)   | Up to        | Or<br>(\$4,844,145)  |
| <b>Total GR (tax credit vs. sales tax retention)</b>             | <b>(\$8,737,656)</b>  |              | <b>(\$54,315,000)</b><br><b>Or</b><br><b>(\$58,472,229)</b> |              | <b>(\$21,797,061)</b><br><b>Or</b><br><b>(\$13,247,145)</b> |              | <b>(\$78,572,061)</b><br><b>Or</b><br><b>(\$70,022,145)</b>  |
| 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)  |
| <b>Total State Revenues (tax credit vs. sales tax retention)</b> | <b>(\$12,305,533)</b> |              | <b>(\$76,493,625)</b><br><b>Or</b><br><b>(\$82,348,390)</b> |              | <b>(\$25,228,286)</b><br><b>Or</b><br><b>(\$18,656,395)</b> |              | <b>(\$105,186,411)</b><br><b>Or</b><br><b>(\$98,614,520)</b> |
| <u>Local Funds</u><br>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)  |
| <b>Total Local Funds</b>   | <b>(\$11,854,086)</b> | <b>Up to</b> | <b>(\$79,327,323)</b>                                       | <b>Up to</b> | <b>(\$17,971,960)</b>                                       | <b>Up to</b> | <b>(\$94,996,710)</b>  |

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 provision. 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.

**Oversight** notes both DOR & B&P assume this provision 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 provision.

**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.

## **SA 2 Section 144.813 Class III Medical Device Sales Tax Exemption**

In response to a similar proposal (SB 173), officials from the **Office of Administration - Budget and Planning (B&P)** note the following:

### **Rolling Conformity with Social Security Act**

This provision would create a rolling sales tax exemption conformity for all medical equipment covered by Medicare. Currently, the Missouri sales tax exemption is limited to those items that were covered as of January 1, 1980. This provision would expand the sales tax exemption to all devices covered by Medicare now and in the future. Therefore, this provision could result in

forgone revenue in the future. B&P is unable to determine when or how much revenue may be forgone by creating the rolling conformity.

As of December 2022, B&P is aware of two potential devices that would become tax exempt as a result of this provision. One device is used to treat glioblastoma and mesothelioma, while the other device is used for brain aneurysm embolization. B&P will include cost estimates for the lost sales tax revenue from these devices.

### Cancer Devices

This provision would exempt class III medical devices that use electric fields in the treatment of cancer from state and local sales and use taxes. This would also exempt the components, repair, and disposable patient supplies used with such devices. This exemption would begin August 28, 2023.

B&P notes that there are currently two such FDA devices approved. The first device is used to treat glioblastoma and the second device is used to treat mesothelioma. Based on data published by the manufacturer, B&P estimates that approximately 7.2% of glioblastoma patients use the qualifying device. B&P was unable to estimate the usage rate for mesothelioma. For the purpose of this fiscal note, B&P will assume that the usage rate is the same 7.2% found for glioblastoma patients.

Based on information published by the CDC, there were 466 individuals with brain and other nervous system cancers in Missouri during 2019, the most recent year available. Based on further research, B&P determined that glioblastoma cancer accounts for 17% of all brain and nervous system cancers. Therefore, B&P estimates that approximately 79 individuals in Missouri (466 brain and nervous system cancers x 17%) may have glioblastoma. Based on further information published by the CDC, there were 55 cases of mesothelioma in Missouri during 2019.

Assuming that Missouri cancer patients use the qualifying class III medical devices at the same rate as patients outside of Missouri, B&P estimates that approximately 6 individuals with glioblastoma (79 Missouri glioblastoma patients x 7.2% device usage) and 4 individuals with mesothelioma (55 Missouri mesothelioma patients x 7.2% device usage) per year may qualify for this sales tax exemption.

Based on additional research, B&P determined that the average cost of using the qualifying class III medical device is approximately \$21,000 per month, or \$252,000 per year (\$21,000 per month x 12). Therefore, B&P estimates that this provision may exempt \$2,520,000 [(6 glioblastoma patients x \$252,000 per year costs) + (4 mesothelioma patients x \$252,000 per year costs)] in sales from state and local sales taxes.

Based on the above information, B&P estimates that this provision may reduce TSR by \$106,470 and GR by \$75,600 per year. Using the 2022 population weighted local sales tax rate of 4.07%, B&P further estimates this provision may reduce local sales tax collections by \$102,564 per year.

Embolization Devices

Approximately 300,000 people in the U.S. have a ruptured brain aneurysm each year. B&P notes that there is a newly FDA approved device used to treat brain aneurysms. Assuming that the incidence of ruptured brain aneurysms is similar throughout the U.S., B&P assumes that 570 Missouri residents suffer from a ruptured brain aneurysm each year.

Based on data published by the manufacture, this new embolization device costs about \$1,000. Therefore, B&P estimates that this provision could exempt \$570,000 (570 patients x \$1,000 treatment) in sales from state and local taxation.

Based on the above information, B&P estimates that this provision may reduce TSR by \$24,083 and GR by \$17,100 per year. Using the 2022 population weighted local sales tax rate of 4.07%, B&P further estimates this provision may reduce local sales tax collections by \$23,199 per year.

Wheelchair accessories

This provision would also exempt wheelchair accessories. B&P notes that some accessories may already be exempt if they are attached to the wheelchair when purchased. However, such accessory may be subject to tax if purchased separately from a wheelchair. Due the complex taxability and limited sales data, B&P is unable to determine a potential impact from this provision. However, B&P anticipates that state and local revenue loss would be minimal.

Summary

B&P estimates that this provision may reduce TSR by an amount that could exceed \$130,553 and GR by an amount that could exceed \$92,700 per year. Using the 2022 population weighted local sales tax rate of 4.07%, B&P further estimates this provision may reduce local sales tax collections by an amount that could exceed \$125,763 per year.

Table 1: Estimated Impact by Fund

|                             | FY 2024                         | FY 2025+                        |
|-----------------------------|---------------------------------|---------------------------------|
| <b><u>State Funds</u></b>   |                                 |                                 |
| General Revenue             | Could exceed (\$77,250)         | Could exceed (\$92,700)         |
| Education (SDTF)            | Could exceed (\$25,750)         | Could exceed (\$30,900)         |
| Conservation                | Could exceed (\$3,219)          | Could exceed (\$3,863)          |
| DNR                         | Could exceed (\$2,575)          | Could exceed (\$3,090)          |
| <b>Total State Revenues</b> | <b>Could exceed (\$108,794)</b> | <b>Could exceed (\$130,553)</b> |
| <b><u>Local Impact</u></b>  |                                 |                                 |
| Local Sales Tax             | Could exceed (\$104,803)        | Could exceed (\$125,763)        |

Officials from the **Department of Revenue (DOR)** note Section 144.030 outlines all the products that are exempt from sales tax. In Section 144.030.2(18) the sales of all durable

medical equipment as defined on January 1, 1980, by the Medicare program is exempt. This current wording allows the state to have rolling compliance with the Medicare program however, it is limited to only as the Medicare program existed in 1980. Due to medical advances, new products have been brought on the market that are considered durable medical goods at the federal level but not at the state level. As of December 2022, the Department is aware of two such devices; one device used to treat glioblastoma and mesothelioma and a second device is an embolization device used to prevent brain aneurysms.

This provision would remove the limitation that the device have been covered as of January 1, 1980. This provision may expand the sales tax exemption to new devices in the future and result in forgone revenue in the future. The Department is not able to estimate the impact from future devices being sales tax exempt. The Department will estimate the impact from the two devices DOR is aware of.

#### Brain Cancer Devices

This provision would allow the sales of all class III medical devices that use electric fields for the purposes of the treatment of cancer to be exempt from all state and local sales and use taxes. This exemption would begin August 28, 2023. Class III medical devices are those devices that have a high risk to the patient and/or user. These devices usually sustain or support life, are implanted, or present potential unreasonable risk of illness or injury. They represent 10% of medical devices regulated by the FDA. These devices are used for treating glioblastoma and mesothelioma.

The Department is aware that one company makes two devices, one for glioblastoma and one that treats mesothelioma. These devices cost approximately \$21,000 a month each or \$252,000 annually. The manufacturer estimates that approximately 7.2% of all patients with these conditions use their product. According to the CDC approximately 466 individuals have brain and other nervous system cancers and 55 individuals have mesothelioma in Missouri. Since glioblastoma accounts for about 17% of all brain cancers, DOR will assume that 79 Missourians have glioblastoma and 55 have mesothelioma.

Applying the 7.2% percentage to the number of Missouri residents with these conditions DOR estimates that 6 Missourians are using it for glioblastoma and 4 are using it for mesothelioma and will qualify for the sales tax exemption annually.

At a cost of \$252,000 per year per person, DOR notes that this would result in taxable sales of \$2,520,000. This provision removes both the state sales tax (4.225%) and the local sales tax (4.07% weighted average local tax rate). This would result in a loss to the state of \$106,470 in total state revenue.

|                         |        | 10/12 Year | Full Year   |
|-------------------------|--------|------------|-------------|
| General Revenue         | 3%     | (\$63,000) | (\$75,600)  |
| School District Trust   | 1%     | (\$21,000) | (\$25,200)  |
| Conservation Commission | 0.125% | (\$2,625)  | (\$3,150)   |
| Park, Soil & Water      | 0.10%  | (\$2,100)  | (\$2,520)   |
| Total State Revenue     |        | (\$88,725) | (\$106,470) |
|                         |        |            |             |
| Local                   | 4.07%  | (\$85,470) | (\$102,564) |

Embolization Devices

The Department is aware there is a device that is used to treat brain aneurysms. It is an embolization device that costs about \$1,000.

Approximately 300,000 people in the U.S., and 570 in Missouri have a ruptured brain aneurysm each year. Therefore up to \$570,000 (\$570 patients \* \$1,000 device) could be exempt from state and local taxes annually.

The Department estimates that this provision may reduce total state revenue by \$24,083 per year.

|                         |        | 10/12 Year | Full Year  |
|-------------------------|--------|------------|------------|
| General Revenue         | 3.00%  | (\$14,250) | (\$17,100) |
| School District Trust   | 1.00%  | (\$4,750)  | (\$5,700)  |
| Conservation Commission | 0.125% | (\$594)    | (\$713)    |
| Park, Soil & Water      | 0.10%  | (\$475)    | (\$570)    |
| Total State Revenue     |        | (\$20,069) | (\$24,083) |
|                         |        |            |            |
| Local                   | 4.07%  | (\$19,333) | (\$23,199) |

Wheelchair accessories

This provision would add wheelchair accessories to the list of devices that will be considered tax exempt. Wheelchairs and some accessories are already tax exempt while other accessories are not. The Department notes that when most accessories are purchased with the wheelchair, such as a seatbelt or restraints those accessories are tax exempt. However, sometimes when a taxpayer buys those accessories later those accessories may be subject to sales tax. This provision will make it clear that all the accessories are considered tax exempt regardless of when purchased. Due to the limited sales tax the impact of this provision is unknown but it is anticipated to be minimal.

These provisions would require a change to the sales and use tax forms, to their website and to their tax computer system. The estimated costs of these changes is \$14,386.

**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 this proposed sale tax exemption would decrease the 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.

In response to a similar proposal (SB 173), officials from the **Missouri Department of Conservation** assume this provision 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 provision.

**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 this proposed sale tax exemption would decrease the 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.

In response to a similar proposal (SB 173), officials from the **City of O'Fallon** assume the provision will have no fiscal impact on their city.

In response to a similar proposal (SB 173), officials from the **City of Kansas City** assume this provision would have a negative fiscal impact on their city of an indeterminate amount.

**Oversight** notes the above local political subdivisions stated this provision would have a negative fiscal impact on their respective cities of an indeterminate amount. Oversight notes this proposed sale tax exemption could impact the local sales tax revenue to all localities. Therefore, Oversight will note B&P and DOR's estimates for all local political subdivisions on the fiscal note.

**Oversight** notes officials from B&P and DOR both assume the provision will have a negative fiscal impact on both state and local revenues. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect DOR's and B&P's estimated impact in the fiscal note.

**Oversight** notes this provision would extend the sales tax exemption to all devices covered by Medicare now and in the future. Therefore, Oversight will show a range of fiscal impacts of \$0 (no additional items covered by Medicare) to an Unknown negative amount that may be forgone by creating the rolling conformity.

### **Responses regarding the proposed legislation as a whole**

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

Officials from the **City of Springfield** anticipate a negative fiscal impact of an undetermined amount.

Officials from **Jackson County** assume the proposal will have no fiscal impact on their organization.

Officials from the **Department of Health and Senior Services** and the **Department of Commerce and Insurance** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

**Oversight** only reflects the responses received from state agencies and political subdivisions; however, other cities and counties 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** will note the one-time cost, estimated at \$50,351 associated with the updates of DOR’s sales and income tax system for all sections within the proposal, in the fiscal note beginning FY 2024.

| <u>FISCAL IMPACT – State Government</u>   | FY 2024<br>(10 Mo.)            | FY 2025                        | FY 2026                        |
|---|--------------------------------|--------------------------------|--------------------------------|
| <b>GENERAL REVENUE*</b>   |                                |                                |                                |
| <u>Revenue Reduction</u> - §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)    |
| <u>Revenue Reduction</u> - §144.014 – Reduction in DOR 1% Collection Fees from local sales tax exemption of food p. (5-9) | (\$9,316,518)                  | (\$12,422,024)                 | (\$12,422,024)                 |
| Revenue Reduction - §144.030 - Exemption of sales tax on child diapers p. (9-12)  | (\$1,976,679 to \$4,863,399)   | (\$2,372,015 to \$5,836,079)   | (\$2,372,015 to \$5,836,079)   |
| Revenue Reduction - §144.030 - Exemption of sales tax on adult diapers p. (9-12)  | (\$10,003,575 to \$25,107,011) | (\$12,004,289 to \$30,128,413) | (\$12,004,289 to \$30,128,413) |



|  |   |   |   |
|--|---|---|---|
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products p. (12-15) | (\$2,230,074 to \$5,270,658)                  | (\$2,676,089 to \$6,324,790)                  | (\$2,676,089 to \$6,324,790)                  |
| <u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (15-19)      | (\$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. (19-26)                                | 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</u> – DOR   |   |   |   |
| Personnel Service  | (\$26,000)                                    | (\$31,824)                                    | (\$32,460)                                    |
| Fringe Benefits  | (\$22,473)                                    | (\$27,195)                                    | (\$27,427)                                    |
| Expense & Equipment  | (\$31,660)                                    | (\$570)                                       | (\$582)                                       |
| Other Cost – ITSD Updates  | (\$50,351)                                    | \$0   | \$0   |
| <u>Total Costs</u> -   | (\$130,484)                                   | (\$59,589)                                    | (\$60,469)                                    |
| FTE Change   | 1 FTE   | 1 FTE   | 1 FTE   |
| <u>Revenue Reduction</u> - §144.813 Brain cancer device sales tax exemption p. (26-31)               | (\$63,000)                                    | (\$75,600)                                    | (\$75,600)                                    |
| <u>Revenue Reduction</u> - §144.813 Embolization device sales tax exemption p. (26-31)               | (\$14,250)                                    | (\$17,100)                                    | (\$17,100)                                    |
| <u>Revenue Reduction</u> - §144.813 Rolling conformity for Medicare exemptions p. (26-31)            | \$0 to (Unknown)                              | \$0 to (Unknown)                              | \$0 to (Unknown)                              |
| <u>Revenue Reduction</u> - §144.813 Wheelchair accessories sales tax exemption p. (26-31)            | (Unknown)                                     | (Unknown)                                     | (Unknown)                                     |
| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE*</b>  | <b><u>(\$32,602,720 to \$103,368,033)</u></b> | <b><u>(\$38,089,295 to \$138,339,390)</u></b> | <b><u>(\$38,091,055 to \$138,341,150)</u></b> |
| Estimated Net FTE Change on General Revenue  | 1 FTE   | 1 FTE   | 1 FTE   |

| <b>SCHOOL DISTRICT TRUST FUND</b>  |                                       |                                       |                                       |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| <u>Revenue Reduction</u> - §144.014 – Sales Tax Exemption of Food p. (5-9)                           | (\$115,680,842)                       | (\$154,241,122)                       | (\$154,241,122)                       |
| Revenue Reduction - §144.030 - Exemption of sales tax on child diapers p. (9-12)                     | (\$658,893 to \$1,621,133)            | (\$790,672 to \$1,945,360)            | (\$790,672 to \$1,945,360)            |
| Revenue Reduction - §144.030 - Exemption of sales tax on adult diapers p. (9-12)                     | (\$3,334,525 to \$8,369,004)          | (\$4,001,430 to \$10,042,804)         | (\$4,001,430 to \$10,042,804)         |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products p. (12-15) | (\$743,358 to \$1,756,886)            | (\$892,030 to \$2,108,263)            | (\$892,030 to \$2,108,263)            |
| <u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (15-19)      | (\$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. (19-26)                                | Up to (\$578,385 to \$1,385,743)      | \$0 or up to (\$1,614,715)            | \$0 or up to (\$1,614,715)            |
| <u>Revenue Reduction</u> - §144.813 Brain cancer device sales tax exemption p. (26-31)               | (\$21,000)                            | (\$25,200)                            | (\$25,200)                            |
| <u>Revenue Reduction</u> - §144.813 Embolization device sales tax exemption p. (26-31)               | (\$4,750)                             | (\$5,700)                             | (\$5,700)                             |
| <u>Revenue Reduction</u> - §144.813 Rolling conformity for Medicare exemptions p. (26-31)            | \$0 to (Unknown)                      | \$0 to (Unknown)                      | \$0 to (Unknown)                      |
| <u>Revenue Reduction</u> - §144.813 Wheelchair accessories sales tax exemption p. (26-31)            | (Unknown)                             | (Unknown)                             | (Unknown)                             |
| <b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>  | <b><u>(\$123,355,920 to could</u></b> | <b><u>(\$162,757,154 to could</u></b> | <b><u>(\$162,757,154 to could</u></b> |

|  | <u>exceed</u><br><b>\$146,944,358)</b> | <u>exceed</u><br><b>\$191,709,164)</b> | <u>exceed</u><br><b>\$191,709,164)</b> |
|--|--|--|--|
|  |  |  |  |
|  |  |  |  |
| <b>CONSERVATION TRUST FUND</b>   |  |  |  |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.014 – Sales Tax Exemption of Food p. (5-9)                           | (\$14,460,105)                         | (\$19,280,140)                         | (\$19,280,140)                         |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers p. (9-12)              | (\$80,714 to \$202,642)                | (\$96,857 to \$243,170)                | (\$96,857 to \$243,170)                |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers p. (9-12)              | (\$416,816 to \$1,046,125)             | (\$500,179 to \$1,255,351)             | (\$500,179 to \$1,255,351)             |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products p. (12-15) | (\$92,920 to \$219,611)                | (\$111,504 to \$263,533)               | (\$111,504 to \$263,533)               |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (15-19)      | (\$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. (19-26)                                | Up to (\$72,298 to \$173,218)          | \$0 or up to (\$201,839)               | \$0 or up to (\$201,839)               |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.813 Brain cancer device sales tax exemption p. (26-31)               | (\$2,625)                              | (\$3,150)                              | (\$3,150)                              |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.813 Embolization device sales tax exemption p. (26-31)               | (\$594)                                | (\$713)                                | (\$713)                                |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.813 Rolling conformity for Medicare exemptions p. (26-31)            | \$0 to (Unknown)                       | \$0 to (Unknown)                       | \$0 to (Unknown)                       |
|  |  |  |  |
| <u>Revenue Reduction</u> - §144.813 Wheelchair accessories sales tax exemption p. (26-31)            | (Unknown)                              | (Unknown)                              | (Unknown)                              |

|  |   |   |   |
|--|---|---|---|
| <b>ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND</b>   | <b><u>(\$15,337,129 to<br/>could exceed<br/>\$18,368,045)</u></b> | <b><u>(\$20,342,668 to<br/>could exceed<br/>\$23,963,646)</u></b> | <b><u>(\$20,342,668 to<br/>could exceed<br/>\$23,963,646)</u></b> |
|  |   |   |   |
| <b>PARK, SOIL, &amp; WATER FUND</b>  |   |   |   |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.014 – Sales Tax Exemption of Food p. (5-9)                           | (\$11,568,084)  | (\$15,424,112)  | (\$15,424,112)  |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers p. (9-12)              | (\$65,889 to<br>\$162,113)  | (\$96,857 to<br>\$196,782)  | (\$96,857 to<br>\$196,782)  |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers p. (9-12)              | (\$333,452 to<br>\$836,900)                                       | (\$400,143 to<br>\$1,004,280)                                     | (\$400,143 to<br>\$1,004,280)                                     |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on feminine hygiene products p. (12-15) | (\$74,336 to<br>\$175,689)  | (\$89,203 to<br>\$210,826)  | (\$89,203 to<br>\$210,826)  |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.064.2 sales tax exemption of firearms and ammunition p. (15-19)      | (\$233,417 to<br>\$1,810,500)                                     | (\$280,100 to<br>\$2,172,600)                                     | (\$280,100 to<br>\$2,172,600)                                     |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.064.3 sales tax retention* p. (19-26)                                | Up to (\$57,839<br>to \$138,575)                                  | \$0 or up to<br>(\$161,471)                                       | \$0 or up to<br>(\$161,471)                                       |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.813 Brain cancer device sales tax exemption p. (26-31)               | (\$2,100)   | (\$2,520)   | (\$2,520)   |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.813 Embolization device sales tax exemption p. (26-31)               | (\$475)   | (\$570)   | (\$570)   |
|  |   |   |   |
| <u>Revenue Reduction</u> - §144.813 Rolling conformity for Medicare exemptions p. (26-31)            | \$0 to<br>(Unknown)   | \$0 to<br>(Unknown)   | \$0 to<br>(Unknown)   |
|  |   |   |   |

|   |   |   |   |
|---|---|---|---|
| <u>Revenue Reduction</u> - §144.813<br>Wheelchair accessories sales tax<br>exemption p. (26-31) | (Unknown)   | (Unknown)   | (Unknown)   |
| <b>ESTIMATED NET EFFECT ON<br/>PARK, SOIL, &amp; WATER FUND</b>                                 | <b><u>(\$12,335,592 to<br/>could exceed<br/>\$14,694,436)</u></b> | <b><u>(\$16,293,505 to<br/>could exceed<br/>\$19,173,161)</u></b> | <b><u>(\$16,293,505 to<br/>could exceed<br/>\$19,173,161)</u></b> |

\*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<br/>Government</u>  | FY 2024<br>(10 Mo.)                      | FY 2025                           | FY 2026                           |
|--|--|-----------------------------------|-----------------------------------|
| <b>LOCAL POLITICAL<br/>SUBDIVISIONS</b>  |  |                                   |                                   |
| <u>Revenue Reduction</u> - §144.014 – Sales<br>Tax Exemption of Food p. (5-9)  | (\$987,455,100)                          | (\$1,316,606,800)                 | (\$1,316,606,800)                 |
| <u>Revenue Reduction</u> - §144.030 -<br>Exemption of sales tax on feminine<br>hygiene products and diapers p. (12-<br>15) | (\$21,507,981 to<br>\$47,810,382)        | (\$25,809,577 to<br>\$57,372,459) | (\$25,809,577 to<br>\$57,372,459) |
| <u>Revenue Reduction</u> - §144.064.2<br>sales tax exemption of firearms and<br>ammunition p. (15-19)                      | (\$9,500,058 to<br>\$73,687,350)         | (\$11,400,070 to<br>\$88,424,820) | (\$11,400,070 to<br>\$88,424,820) |
| <u>Revenue Reduction</u> - §144.064.3<br>sales tax retention* p. (19-26)   | Up to<br>(\$2,354,028 to<br>\$5,639,973) | \$0 or up to<br>(\$6,571,890)     | \$0 or up to<br>(\$6,571,890)     |
| <u>Revenue Reduction</u> - §144.813 Brain<br>cancer device sales tax exemption p.<br>(26-31)                               | (\$85,470)                               | (\$102,564)                       | (\$102,564)                       |
| <u>Revenue Reduction</u> - §144.813<br>Embolization device sales tax<br>exemption p. (26-31)                               | (\$19,333)                               | (\$23,199)                        | (\$23,199)                        |

|   |   |   |   |
|---|---|---|---|
| <u>Revenue Reduction</u> - §144.813<br>Rolling conformity for Medicare<br>exemptions p. (26-31) | \$0 to<br>(Unknown)   | \$0 to (Unknown)  | \$0 to (Unknown)  |
| <u>Revenue Reduction</u> - §144.813<br>Wheelchair accessories sales tax<br>exemption p. (26-31) | (Unknown)   | (Unknown)   | (Unknown)   |
| <b>ESTIMATED NET EFFECT ON<br/>LOCAL POLITICAL<br/>SUBDIVISIONS</b>                             | <b><u>(\$1,042,108,225<br/>to could exceed<br/>\$1,114,697,608)</u></b> | <b><u>(\$1,353,942,210<br/>to could exceed<br/>\$1,469,101,732)</u></b> | <b><u>(\$1,353,942,210<br/>to could exceed<br/>\$1,469,101,732)</u></b> |

FISCAL IMPACT – Small Business

Section 144.014 - Small businesses that buy or sell food could be impacted by this proposal.

Section 144.030 - Small businesses that sell feminine hygiene products and/or diapers could be impacted by this proposal.

Section 144.064.2 - Small businesses that purchase or sell firearms or ammunition could be impacted by this proposal.

Section 144.813 - Small businesses that purchase qualified medical devices could be positively impacted by this proposal.

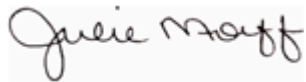
FISCAL DESCRIPTION

This act establishes provisions relating to tax relief.

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 Natural Resources  
Department of Revenue  
Missouri Department of Conservation  
Office of Administration - Budget and Planning  
Department of Health and Senior Services  
Department of Commerce and Insurance  
City of Kansas City  
City of O'Fallon  
City of Springfield  
Jackson County  
St Louis Budget Division



Julie Morff  
Director  
March 2, 2023



Ross Strobe  
Assistant Director  
March 2, 2023