

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1093S.01I
Bill No.: SB 300
Subject: Taxation and Revenue - Sales and Use; Energy
Type: Original
Date: March 6, 2023

Bill Summary: This proposal provides a sales tax exemption for the production of electricity.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	(\$5,540,593 to \$29,678,193)	(\$6,648,711 to \$35,613,831)	(\$6,648,711 to \$35,613,831)
Total Estimated Net Effect on General Revenue	(\$5,540,593 to \$29,678,193)	(\$6,648,711 to \$35,613,831)	(\$6,648,711 to \$35,613,831)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
School District Trust (0688)	(\$1,846,864 to \$9,892,731)	(\$2,216,237 to \$11,871,277)	(\$2,216,237 to \$11,871,277)
Conservation Commission (0609)	(\$230,858 to \$1,236,592)	(\$277,030 to \$1,483,910)	(\$277,030 to \$1,483,910)
Parks, Soils, and Water State Sales Tax Fund (0613 & 0614)	(\$184,687 to \$989,273)	(\$221,624 to \$1,187,128)	(\$221,624 to \$1,187,128)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$2,262,409 to \$12,118,596)	(\$2,714,891 to \$14,542,315)	(\$2,714,891 to \$14,542,315)

Numbers within parentheses: () indicate costs or losses.

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

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

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 144.058 Electricity Sales Tax Exemption

Officials from the **Office of Administration - Budget and Planning** and the **Department of Revenue** each note this proposal exempts from state sales and use tax various inputs to the utilities industry. These exemptions include the utilities, chemicals, machinery, equipment, supplies, parts and materials used by that industry. B&P notes that this proposal would not exempt such products from local sales taxes.

B&P assumes that the broad terms “parts and materials” exempt most inputs to production for the utilities.

DOR reports taxable sales in 2021 from various electrical utility related industries as shown below.

Method 1 - Lower Bound Estimates

Tax Type	SIC	NAICS	Description	CY 2019	Percent
Use	491, 493	221111	HYDROELECTRIC POWER GENERATION	\$67,433,811	100%
Use	491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$0	100%
Use	491, 493	221113	Nuclear Electric Power Generation	\$0	100%
Use	491, 493	221114	Solar Electric Power Generation	\$0	100%
Use	491, 493	221115	Wind Electric Power Generation	\$0	100%
Use	491, 493	221116	Geothermal Electric Power Generation	\$0	100%
Use	491, 493	221117	Biomass Electric Power Generation	\$0	100%
Use	491, 493	221118	Other Electric Power Generation	\$0	100%
Use	491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$18,092,714	100%
Use	491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$54,022,755	100%
Use	493	221210	NATURAL GAS DISTRIBUTION	\$24,047,495	100%

Sales	364	332216	Saw Blade and Handtool Manufacturing	\$0	100%
Sales	369	333318	Other Commercial and Service Industry Machinery Manufacturing	\$0	60%
Sales	369	333992	Welding and Soldering Equipment Manufacturing	\$37,408	60%
Sales	364	335110	Electric Lamp Bulb and Part Manufacturing	\$0	100%
Sales	364	335121	Residential Electric Lighting Fixture Manufacturing	\$1,125,045	100%
Sales	364	335122	Commercial, Industrial, and Institutional Electric Lighting Fixture Manufacturing	\$0	100%
Sales	364, 369	335129	Other Lighting Equipment Manufacturing	\$0	60%
Sales	361	335311	Power, Distribution, and Specialty Transformer Manufacturing	\$12,884,552	100%
Sales	362	335312	Motor and Generator Manufacturing	\$2,362,762	100%
Sales	361	335313	Switchgear and Switchboard Apparatus Manufacturing	\$0	100%
Sales	362	335314	RELAY AND INDUSTRIAL CONTROL MANUFACTURING	\$123,528	100%
Sales	364	335931	Current-Carrying Wiring Device Manufacturing	\$1,999,974	100%
Sales	364	335932	Noncurrent-Carrying Wiring Device Manufacturing	\$0	100%
Sales	362	335991	Carbon and Graphite Product Manufacturing	\$0	100%
Sales	362, 369	335999	All Other Miscellaneous Electrical Equipment and Component Manufacturing	\$39,493,650	100%
Total Exempt Sales				\$221,623,693	

Based on this information, B&P estimates that this proposal could reduce TSR by \$9,363,602 (\$221,623,693 x 4.225%) and GR by \$6,648,711 (\$221,623,693 x 3.0%) annually. B&P notes, however, that this method of estimation likely does not capture all the taxable sales that would become exempt under this proposal, and that this impact reflects the bottom of the range for the decrease in revenue.

In order to determine an upper-bound estimate for the reduction to state revenues, B&P utilized the US BEA Input-Output Use Tables¹. According to the Input-Output Use Tables, inputs from

¹ http://www.bea.gov/industry/io_annual.htm

commodities that might qualify under these exemptions are roughly 25.0% of the total output of the “utilities” industry. In addition, DOR reports that taxable sales of electric related utilities in 2021 were about \$4,745,325,173. This suggests that this proposal might exempt \$1,187,127,714 in taxable sales from taxation.

Method 2 - Upper Bound Estimate

SIC	NAICS	Description	CY 2019
491, 493	221111	HYDROELECTRIC POWER GENERATION	\$1,906,978,672
491, 493	221112	FOSSIL FUEL ELECTRIC POWER GENERATION	\$44,542,910
491, 493	221113	Nuclear Electric Power Generation	\$0
491, 493	221114	Solar Electric Power Generation	\$0
491, 493	221115	Wind Electric Power Generation	\$0
491, 493	221116	Geothermal Electric Power Generation	\$0
491, 493	221117	Biomass Electric Power Generation	\$0
491, 493	221118	Other Electric Power Generation	\$0
491, 493	221121	ELECTRIC BULK POWER TRANSMISSION AND CONTROL	\$29,154,298
491, 493	221122	ELECTRIC POWER DISTRIBUTION	\$2,296,158,628
492, 493	221210	NATURAL GAS DISTRIBUTION	\$468,490,665
492	486210	PIPELINE TRANSPORTATION OF NATURAL GAS	\$0
Total Sales			\$4,745,325,173
BEA Input / Output Adjustment			25.0%
Total Exempt Sales			\$1,187,127,714

B&P estimates that this could reduce TSR by \$50,156,146 ($\$1,187,127,714 \times 4.225\%$) and GR by \$35,613,831 ($\$1,187,127,714 \times 3.0\%$) annually. B&P notes, however, that this method may overestimate the true reduction to state revenues by including items that would not become tax exempt under this proposal.

Therefore, using both the taxable sales reports provided by DOR and the US BEA Input-Output Use Tables, B&P estimates that this proposal could reduce TSR by \$9,363,602 to \$50,156,146 annually and GR by \$6,648,711 to \$35,613,831 once fully implemented in FY25.

Table 3: State Impacts by Fund

Fund	FY 2024		FY 2025+	
	Low	High	Low	High
GR	(\$5,540,593)	(\$29,678,193)	(\$6,648,711)	(\$35,613,831)
Education	(\$1,846,864)	(\$9,892,731)	(\$2,216,237)	(\$11,871,277)
Conservation	(\$230,858)	(\$1,236,592)	(\$277,030)	(\$1,483,910)
DNR	(\$184,687)	(\$989,273)	(\$221,624)	(\$1,187,128)
TSR Impact	(\$7,803,002)	(\$41,796,789)	(\$9,363,602)	(\$50,156,146)

Officials from the **Department of Revenue** assume this proposal will require updates to their tax computer system and website. These changes are estimated at \$7,193.

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 computer system and website costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

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

Oversight notes DNR=s Parks and Soils State Sales Tax Funds (0613 & 0614) receives one-tenth of one percent of the revenues generated from sales and use tax. It is unclear whether this proposed legislation will impact DNR=s Parks and Soils State Sales Tax Fund(s) as the distribution to the funds is constitutionally created.

Officials from the **Missouri Department of Conservation (MDC)** assume this proposal would have an unknown fiscal impact. MDC notes 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 this proposed sales tax exemption would reduce the amount of sales tax revenue distributed to the Conservation Sales Tax funds. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for MDC's funds.

Lexington Water/Wastewater assumes the proposal would have an impact but did not provide any additional information.

Officials from the **Morgan County PWSD #2, South River Drainage District – 7D Levee, Little Blue Valley Sewer District - 7B Sewer, Metropolitan St. Louis Sewer District - 7B Sewer, Metropolitan Swrd St. Louis - 7B Sewer, Blackwater Reorganized Common Sewer District Hancock Street Light District, City of Kansas City, City of Springfield, and Wayne County PWSD #2** 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 local political subdivisions and electric companies and coops were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the MOLIS database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE FUND			
<u>Revenue Reduction - Section 144.058 - Sales/Use Tax exemption for production of electricity</u>	<u>(\$5,540,593 to \$29,678,193)</u>	<u>(\$6,648,711 to \$35,613,831)</u>	<u>(\$6,648,711 to \$35,613,831)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$5,540,593 to \$29,678,193)</u>	<u>(\$6,648,711 to \$35,613,831)</u>	<u>(\$6,648,711 to \$35,613,831)</u>
SCHOOL DISTRICT TRUST FUND (0688)			
<u>Revenue Reduction - Section 144.058 - Sales/Use Tax exemption for production of electricity</u>	<u>(\$1,846,864 to \$9,892,731)</u>	<u>(\$2,216,237 to \$11,871,277)</u>	<u>(\$2,216,237 to \$11,871,277)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$1,846,864 to \$9,892,731)</u>	<u>(\$2,216,237 to \$11,871,277)</u>	<u>(\$2,216,237 to \$11,871,277)</u>
CONSERVATION COMMISSION FUND (0609)			

<u>Revenue Reduction</u> - Section 144.058 - Sales/Use Tax exemption for production of electricity	<u>(\$230,858 to \$1,236,592)</u>	<u>(\$277,030 to \$1,483,910)</u>	<u>(\$277,030 to \$1,483,910)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$230,858 to \$1,236,592)</u>	<u>(\$277,030 to \$1,483,910)</u>	<u>(\$277,030 to \$1,483,910)</u>
PARKS AND SOILS STATE SALES TAX FUNDS (0613 & 0614)			
<u>Revenue Reduction</u> - Section 144.058 - Sales/Use Tax exemption for production of electricity	<u>(\$184,687 to \$989,273)</u>	<u>(\$221,624 to \$1,187,128)</u>	<u>(\$221,624 to \$1,187,128)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>(\$184,687 to \$989,273)</u>	<u>(\$221,624 to \$1,187,128)</u>	<u>(\$221,624 to \$1,187,128)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Businesses who qualify for the exemption under this proposed legislation could be impacted, as they would no longer be required to remit the tax on such items.

FISCAL DESCRIPTION

This act creates a state sales tax exemption for utilities, equipment, and materials used to generate or transmit electricity.

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
Missouri Department of Conservation
Department of Revenue

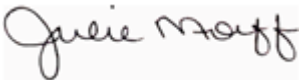
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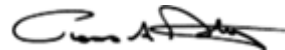
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Office of Administration - Budget and Planning
Morgan County PWSD #2
South River Drainage District – 7D Levee
Wayne County PWSD #2
Lexington Water/Wastewater
Morgan County PWSD #2
South River Drainage District – 7D Levee
Little Blue Valley Sewer District - 7B Sewer
Metropolitan St. Louis Sewer District - 7B Sewer
Metropolitan Swrd St. Louis - 7B Sewer
Blackwater Reorganized Common Sewer District
Hancock Street Light District
Wayne County PWSD #2
City of Kansas City
City of Springfield



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