

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4613S.01I
 Bill No.: SB 1252
 Subject: Taxation and Revenue - Sales and Use
 Type: Original
 Date: March 22, 2024

Bill Summary: This proposal exempts the sale of food from sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	(\$5,212,440)	(\$6,949,920)	(\$6,994,920)
Total Estimated Net Effect on General Revenue	(\$5,212,440)	(\$6,949,920)	(\$6,994,920)

* **Oversight** notes the loss to general revenue represents the forgone 1% collection fee from DOR no longer collecting sales tax on food on behalf of local political subdivisions.

**The loss in FY 2025 is lesser because FY 2025 is a partial year and sales tax distributions are one month behind implementation, therefore the FY 2025 impact is for 9 months.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
School District Trust Fund (0688)	(\$126,779,139)*	(\$169,038,852)	(\$169,038,852)
Parks and Soils State Sales Tax Fund(s) (0613 & 0614)	(\$12,677,914)*	(\$16,903,885)	(\$16,903,885)
Conservation Commission Fund (0609)	(\$15,847,392)*	(\$21,129,856)	(\$21,129,856)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$155,304,445)*	(\$207,072,593)	(\$207,072,593)

*The fiscal impact for FY2025 is lesser because FY2025 is a partial year (9 months)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	(\$552,794,131)	(\$737,058,841)	(\$737,058,841)

**The fiscal impact for FY2025 is lesser because FY2025 is a partial year (9 months)

FISCAL ANALYSIS

ASSUMPTION

Section 144.014 Food Sales Tax Exemption

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would exempt food from state and local sales tax beginning August 28, 2024. 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 FY23, state sales tax collections on food was \$207,072,593. B&P estimates that approximately \$169,038,852 of those collections were distributed to the School District Trust Fund, \$15,847,382 to Conservation, and \$12,677,914 to the Parks, Soil and Water Funds.

Based on information from DOR, during FY23, \$737,058,841 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 Food Sales Tax
Collections, FY23

District	Sales Tax
City	\$378,077,408
City - TIF	\$8,768,834
County	\$280,672,575
CID	\$22,160,771
TDD	\$19,893,113
Ambulance	\$14,021,873
Fire Protection	\$5,704,382
Emergency Services	\$3,535,316
Other Districts	\$4,224,570

B&P notes that “other districts” include hospital districts, port improvement districts, library districts, jail districts, and zoological districts.

B&P further notes that DOR is granted a 1% collection fee on sales taxes distributed to local jurisdictions, except CIDs, TDDs, and Port Improvement districts. Therefore, this proposal could reduce general revenue by \$5,212,440 in FY25. Once fully implemented, in FY26, this proposal may reduce general revenue by \$6,949,920 annually.

B&P also notes that while this proposal would become effective August 28, 2024, sales tax distributions are one month behind collections. Therefore, B&P estimates that this provision

may reduce TSR by \$160,516,885 in FY25. Once fully implemented, this proposal could reduce TSR by \$214,022,513 annually beginning in FY26. This proposal could also reduce local sales tax collections by \$737,058,841 once fully implemented. Table 2 shows the estimated impact by state and local fund.

Table 2: Estimated Grocery Tax Loss by Fund

-	FY 2025	FY 2026+
<u>State Fund</u>		
GR (1% fee)	(\$5,212,440)	(\$6,949,920)
Education	(\$126,779,139)	(\$169,038,852)
Conservation	(\$15,847,392)	(\$21,129,856)
DNR	(\$12,677,914)	(\$16,903,885)
Total State Loss	(\$160,516,885)	(\$214,022,513)
<u>Local Funds</u>		
Cities	(\$283,558,056)	(\$378,077,408)
Cities - TIF	(\$6,576,625)	(\$8,768,834)
Counties	(\$210,504,431)	(\$280,672,575)
CIDs	(\$16,620,578)	(\$22,160,771)
TDDs	(\$14,919,835)	(\$19,893,113)
Ambulance		
Districts	(\$10,516,404)	(\$14,021,873)
Fire Districts	(\$4,278,286)	(\$5,704,382)
Emergency		
Districts	(\$2,651,487)	(\$3,535,316)
Other Districts	(\$3,168,428)	(\$4,224,570)
Total Local Loss	(\$552,794,131)	(\$737,058,841)

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%
School District	1%
Conservation Commission	.125
Parks, Soil & Water Funds	.1%

In 1997, Section 144.014 was adopted and it exempted the collection of the 3% general revenue portion of the state sales tax on food products identified by the SNAP program, while leaving the remaining 1.225% state sales tax in place. Additionally, food items not identified under the SNAP program retained (like food in restaurants) the 4.225% general state sales tax rate.

This proposal starting August 28, 2024, would exempt SNAP identified food from the remaining 1.225% state sales tax rate. This proposal leaves the 4.225% rate on foods not identified under the SNAP program. Additionally, it exempts the local sales tax on food.

It should be noted that sales tax is distributed one month behind the collection. Therefore, DOR will show the loss of 9 months in the first fiscal year (FY 2025).

The Department notes that in FY 2023, food reported \$16,903,885,153 in taxable sales. Therefore, the School District Trust Fund received \$169,038,852, the Conservation Commission Fund received \$21,129,856 and the Park, Soil & Water Funds received \$16,903,885 in state sales tax.

In an effort to bring more transparency to the public, DOR began a process to create a system that would allow the posting of the local food sales tax distributed to local political subdivision's to be placed on the department's website. In setting up that process, it was determined that a report generated for the DOR's Legislative Team and used for calculating fiscal notes over the last several years, could provide the base of the new reporting system. In working with the report, the sales tax bureau found that the report was not pulling and calculating the data correctly for that report. The report used by the Legislative Team was revised causing fiscal notes this year to have noticeable different numbers than the past.

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

District	Total Local Tax
City	\$378,077,407.54
TIF	\$8,768,833.50
County	\$280,672,574.72
District (all other pol sub)	\$69,540,025.68
Total	\$737,058,841.44

The Department is allowed to retain a 1% collection fee off some of the local sales and use tax they collect. Community Improvement Districts (CID), Transportation Development Districts (TDD) and Port Authority Districts do not have the 1% retained even those most other districts do. For those districts in which they collect the 1% fee they assume a loss to general revenue of \$5,212,440 FY 2025 and \$6,949,920 in FY 2026 and beyond from the 1% fee.

The expected revenue loss to the State and potentially the local political subdivision funds is estimated at:

Table 2: Estimated Loss by Fund

State Fund	FY 2025 (9 Months)	FY 2026
GR (1% fee)	(\$5,212,440)	(\$6,949,920)
Education	(\$126,779,139)	(\$169,038,852)
Conservation	(\$15,847,392)	(\$21,129,856)
DNR	(\$12,677,914)	(\$16,903,885)
Total State Loss	(\$160,516,885)	(\$214,022,513)
Local Funds		
City	(\$283,558,056)	(\$378,077,408)
TIF	(\$6,576,625)	(\$8,768,834)
County	(\$210,504,431)	(\$280,672,575)
CID	(\$16,620,578)	(\$22,160,771)
TDD	(\$14,919,835)	(\$19,893,113)
Ambulance	(\$10,516,404)	(\$14,021,873)
Fire	(\$4,278,286)	(\$5,704,382)
Emergency	(\$2,651,487)	(\$3,535,316)
Other	(\$3,168,428)	(\$4,224,570)
Total Local Loss	(\$552,794,131)	(\$737,058,841)

In order to implement this, change the Department will need to modify the department’s sales tax forms (\$7,138), update the department’s website and computer programs (\$1,785) for an estimated cost of \$8,923. Additionally, notice to their vendors would occur using various means.

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 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.

Oversight notes the **B&P** included all sales from all local political subdivisions for purpose of the calculation of the impact shown above, except for calculation of the 1% collection fee by DOR where TDD, CID, and Port Authority sales are not included within the calculation.

Therefore, in FY 2026 the total loss for calculation of 1% collection fee that DOR will no longer obtain is **\$6,949,919.67** [\$737,058,841 – \$22,160,771(CID) - \$19,575,348- \$12,990 (Port Authority)]. In FY 2025 the 1% collection is **\$5,212,440** (\$6,949,920 x (9/12)).

Officials from the **Missouri Department of Conservation** assume 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 assumes the proposed sales tax exemption may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will reflect the B&P's fiscal impact estimates for MDC's funds.

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

Officials from the **Department of Social Services (DSS)** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DSS.

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. The proposed exemption of food from sales tax would reduce the amount of sales tax distributed to this fund. Therefore, Oversight will reflect the B&P's fiscal impact estimates for DNR's funds.

Officials from the **Concordia School District** assume Prop C sales tax for public schools in Missouri generates about \$530,000 per year in revenue for the Concordia R-2 School District. Eliminating food from this sales tax would cost about \$25,000 per year, which is 1 FTE of a support staff person in the district.

Officials from the **City of Columbia** assume the City estimates approximately 15% of their sales tax revenue is from food sales. Applying this proportion to projected sales and use tax revenue, the City of Columbia is projected to lose at least \$10.6 million annually from 2025 onwards if this bill were to pass. This loss of revenue would negatively impact the City of Columbia.

Officials from the **City of Saint Louis – Budget Division** state the elimination of food sales from the local sales tax would have a significant negative impact on the City's annual revenues. Potential loss of revenue is estimated at \$18.7M based on fiscal year ending June 30, 2023 sales tax collections.

Officials from the **City of Kansas City** assume there is a substantial negative fiscal impact of an indeterminate amount.

Officials from the **City of St. Joseph** estimate that an exemption of the retail sale of food from local sales tax would result in a loss of nearly \$10 million in annual revenue, which equates to over 17.6% of total sales tax received.

Officials from the **Branson Police Department** assume this proposal will devastate emergency services in Branson. Preliminary estimates for Branson are that the police and fire departments would lose approx. \$1.2 million annually (especially because much of the tax brought in are from tourists). This would result in at least 7 police officers laid off to meet budget. This will negatively impact the community, drive crime up and tourism down.

Officials from the **Phelps County Sheriff, Kansas City Police Department, City of O’Fallon,** and the **St. Louis County Police Department** 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 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - §144.014 - Grocery Sales Tax Exemption (1% collection fee) p.5	(\$5,212,440)	(\$6,949,920)	(\$6,994,920)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$5,212,440)	(\$6,949,920)	(\$6,994,920)
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.014 - Grocery Sales Tax Exemption p.4-6	(\$126,779,139)	(\$169,038,852)	(\$169,038,852)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(\$126,779,139)	(\$169,038,852)	(\$169,038,852)

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
PARKS AND SOILS STATE SALES TAX FUNDS			
<u>Revenue Reduction - §144.014 - Grocery Sales Tax Exemption p.4-6</u>	<u>(\$12,677,914)</u>	<u>(\$16,903,885)</u>	<u>(\$16,903,885)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	(\$12,677,914)	(\$16,903,885)	(\$16,903,885)
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction - §144.014 - Grocery Sales Tax Exemption p.4-6</u>	<u>(\$15,847,392)</u>	<u>(\$21,129,856)</u>	<u>(\$21,129,856)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(\$15,847,392)	(\$21,129,856)	(\$21,129,856)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction - §144.014 - Grocery Sales Tax Exemption p.4-6</u>	<u>(\$552,794,131)</u>	<u>(\$737,058,841)</u>	<u>(\$737,058,841)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(\$552,794,131)	(\$737,058,841)	(\$737,058,841)

FISCAL IMPACT – Small Business

Certain small businesses that sell food, as defined in the proposal, could be impacted by this proposal.

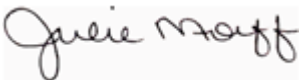
FISCAL DESCRIPTION

Current law taxes retail sales of food, as defined in current law, at a rate of one percent. This act provides that retail sales of food shall be exempt from state sales taxes.

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

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Revenue
Missouri Department of Conservation
Department of Natural Resources
Concordia School District
City of Kansas City
City of St. Joseph
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept
City of O'Fallon
Branson Police Department
Department of Social Services
City of Saint Louis – Budget Division
City of Columbia



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