

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4718S.01I
 Bill No.: SB 1261
 Subject: Agriculture; Department of Revenue; Taxation and Revenue - Sales and Use;
 Motor Vehicles; Transportation
 Type: Original
 Date: February 12, 2024

Bill Summary: This proposal specifies that ATVs used for any agricultural purpose shall be considered farm machinery and equipment for purposes of a sales tax exemption.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	(\$85,335)*	\$0	\$0
Total Estimated Net Effect on General Revenue	(\$85,335)*	\$0	\$0

* Represents computer programming and system upgrades for the Department of Revenue.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
State Road Bond Fund (0319)	Up to (\$315,467)	Up to (\$420,623)	Up to (\$420,623)
State Road Fund (0320)	Up to (\$307,055)	Up to (\$409,407)	Up to (\$409,407)
State Transportation Fund (0675)	Up to (\$8,412)	Up to (\$11,216)	Up to (\$11,216)
School District Trust Fund (0688)	Up to (\$105,156)	Up to (\$140,208)	Up to (\$140,208)
Conservation Fund (0609)	Up to (\$26,289)	Up to (\$35,052)	Up to (\$35,052)
Parks and Soils State Sales Tax Fund	Up to (\$21,031)	Up to (\$28,042)	Up to (\$28,042)
Total Estimated Net Effect on <u>Other</u> State Funds	Up to (\$783,410)*	Up to (\$1,044,548)	Up to (\$1,044,548)

*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	Up to (\$689,449)*	Up to (\$919,266)	Up to (\$919,266)

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

FISCAL ANALYSIS

ASSUMPTION

Section 144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt all-terrain vehicles (ATVs) from state and local sales tax starting August 28, 2024.

Based on data provided by DOR, there were 6,942 ATVs registered in Missouri during 2023 with state sales tax of \$1,184,756 and local sales tax of \$763,738.

B&P is unable to determine how many ATVs are used for agriculture. However, existing statute language would only require an ATV to be used for any agricultural purpose to qualify for the sales tax exemption. For the purpose of this fiscal note, B&P will reflect the loss as “up to” the maximum amount.

B&P notes that the state sales tax rate is 4.225%, which is distributed between the State Road Bond Fund, State Road Fund, State Transportation Fund, Fuel Local Deposit (FLOYD), School District Trust Fund, Conservation, and Parks, Soil and Water funds (DNR). B&P further notes that monies deposited into FLOYD are distributed to locals.

Therefore, B&P estimates that this proposal may have the following impacts:

<u>State Funds</u>	<u>FY 2025</u>	<u>FY 2026+</u>
State Road Bond Fund	Up to (\$315,467)	Up to (\$420,623)
State Road Fund	Up to (\$307,055)	Up to (\$409,407)
State Transportation Fund	Up to (\$8,412)	Up to (\$11,216)
Education (SDTF)	Up to (\$105,156)	Up to (\$140,208)
Conservation	Up to (\$26,289)	Up to (\$35,052)
DNR	Up to (\$21,031)	Up to (\$28,042)
Total Estimated Loss	Up to (\$783,410)	Up to (\$1,044,548)
<u>Local Funds</u>		
Local Sales Tax	Up to (\$584,293)	Up to (\$779,058)

Fuel Local Deposit (FLOYD)	Up to (\$105,156)	Up to (\$140,208)
Total Estimated Loss	Up to (\$689,449)	Up to (\$919,266)

Officials from the **Department of Revenue (DOR)** note currently new or used farm tractors, equipment and utility vehicles used for agricultural uses are exempt from state and local sales tax. This proposal would add all-terrain vehicles (ATV). This clarifies that an ATV is the same as used under Section 301.010.

DOR’s records indicate that there are:

Fiscal Year	ATV Registered	State Sales Tax Collected	Local Sales Tax Collected
2022	7,865	\$1,260,918	\$794,377
2023	6,942	\$1,184,756	\$763,738

DOR notes that this exemption is for ATV that are used for agricultural purposes only. DOR has no way to determine the number that would qualify, so DOR will assume all of them qualify. DOR used the 2-year average for the estimate.

This proposal would become effective on August 28, 2024, in the middle of a fiscal year. DOR notes that sales tax is remitted one month behind collection and therefore will result in a loss of revenue for only 9 months in FY 2025.

Table 1: Estimated Impact on State and Local Funds

State Fund	FY 2025 (9 months)	FY 2026+
State Road Bond Fund	(\$325,607)	(\$434,143)
State Road Fund	(\$316,925)	(\$422,567)
State Transportation Fund	(\$8,683)	(\$11,577)
Education (SDTF)	(\$108,536)	(\$144,714)
Conservation	(\$27,134)	(\$36,179)
DNR	(\$21,707)	(\$28,943)
Total State Funds	(\$808,592)	(\$1,078,122)
Local Funds		
Fuel Local Deposit (FLOYD)	(\$108,536)	(\$144,715)
Local Sales Tax	(\$584,293)	(\$779,058)
Total Local Funds	(\$692,829)	(\$923,773)

ITSD assumes it will need to update the TRIPS computer system at a cost of **\$7,439** (70.85 hours * \$105 hour) and update the GRS system at a cost of **\$27,896** (\$265.68 hours * \$105) to handle these changes immediately.

DOR is in the process of upgrading the department's entire MVDL systems into an integrated system. The costs associated with these legislative changes may be outside the current contract and be concerned a change order. It is estimated to result in an additional cost of **\$50,000**.

DOR notes this could increase the number of people seeking a sale tax refund. DOR needs a full-time Associate Customer Service Representative for every 1,500 increases in refunds.

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

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Oversight 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 DNR's funds.

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.

Oversight notes the School District Trust Fund, authorized by Section 144.701, RSMo, receives collections from a 1 percent state sales and use tax pursuant to Section 144.701, RSMo. 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 the SDTF.

Officials from the **City of Kansas City** assume this legislation will have a negative fiscal impact of an indeterminate amount.

Officials from the **City of O'Fallon** assume the proposal will have no fiscal impact on their city.

Oversight notes officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Oversight will reflect B&P’s estimated impact in the fiscal note.

Oversight will reflect DOR’s administrative cost(s) (TRIPS System \$7,439 + GRS System \$27,896 + Integrated tax system \$50,000) beginning in Fiscal Year 2025.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs of processing additional sales tax refunds. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year’s legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
<u>Costs - DOR - Updates for the TRIPS, GRS, and MVDL systems - p. (4)</u>	<u>(\$85,335)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$85,335)</u>	<u>\$0</u>	<u>\$0</u>
STATE ROAD BOND FUND			
<u>Revenue Reduction - §144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)</u>	Up to <u>(\$315,467)</u>	Up to <u>(\$420,623)</u>	Up to <u>(\$420,623)</u>
ESTIMATED NET EFFECT ON STATE ROAD BOND FUND	Up to <u>(\$315,467)</u>	Up to <u>(\$420,623)</u>	Up to <u>(\$420,623)</u>
STATE ROAD FUND			
<u>Revenue Reduction - §144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)</u>	Up to <u>(\$307,055)</u>	Up to <u>(\$409,407)</u>	Up to <u>(\$409,407)</u>
ESTIMATED NET EFFECT ON STATE ROAD FUND	Up to <u>(\$307,055)</u>	Up to <u>(\$409,407)</u>	Up to <u>(\$409,407)</u>
STATE TRANSPORTATION FUND			
<u>Revenue Reduction - §144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)</u>	Up to <u>(\$8,412)</u>	Up to <u>(\$11,216)</u>	Up to <u>(\$11,216)</u>
ESTIMATED NET EFFECT ON STATE TRANSPORTATION FUND	Up to <u>(\$8,412)</u>	Up to <u>(\$11,216)</u>	Up to <u>(\$11,216)</u>
SCHOOL DISTRICT TRUST FUND			

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
<u>Revenue Reduction</u> - §144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)	Up to <u>(\$105,156)</u>	Up to <u>(\$140,208)</u>	Up to <u>(\$140,208)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	Up to <u>(\$105,156)</u>	Up to <u>(\$140,208)</u>	Up to <u>(\$140,208)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - §144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)	Up to <u>(\$26,289)</u>	Up to <u>(\$35,052)</u>	Up to <u>(\$35,052)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	Up to <u>(\$26,289)</u>	Up to <u>(\$35,052)</u>	Up to <u>(\$35,052)</u>
PARKS AND SOILS STATE SALES TAX FUNDS			
<u>Revenue Reduction</u> - §144.030 - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)	Up to <u>(\$21,031)</u>	Up to <u>(\$28,042)</u>	Up to <u>(\$28,042)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	Up to <u>(\$21,031)</u>	Up to <u>(\$28,042)</u>	Up to <u>(\$28,042)</u>
<u>FISCAL IMPACT – Local Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction</u> - §144.030 - Local Sales Tax - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)	Up to <u>(\$584,293)</u>	Up to <u>(\$779,058)</u>	Up to <u>(\$779,058)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
<u>Revenue Reduction</u> - §144.030 - (FLOYD) - ATVs for Agricultural Use Considered Farm Machinery & Equipment - p. (3)	Up to (\$105,156)	Up to (\$140,208)	Up to (\$140,208)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	Up to (\$689,449)	Up to (\$919,266)	Up to (\$919,266)

FISCAL IMPACT – Small Business

Certain small businesses that sell ATVs could be impacted by this proposal.

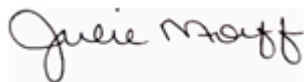
FISCAL DESCRIPTION

This act specifies that all-terrain vehicles used for any agricultural use shall be considered farm machinery and equipment for purposes of a sales tax exemption.


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
 Office of the Secretary of State
 Joint Committee on Administrative Rules
 City of Kansas City
 City of O’Fallon



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 February 12, 2024



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