

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. NO.: 4227-01  
BILL NO.: SB 909  
SUBJECT: Cities, Towns and Villages; Counties; Political Subdivisions; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use.  
TYPE: Original  
DATE: February 16, 2000

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$481,800)	\$596,513	\$890,669
Local Revenue Replacement Fund	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>(\$481,800)</b>	<b>\$596,513</b>	<b>\$890,669</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<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 LOCAL FUNDS</b>			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
<b>Local Government*</b>	<b>\$0</b>	<b>(\$20,383,700)</b>	<b>(\$15,694,800)</b>

\* This proposal is permissive. Voter approval would be required before fiscal impact would be realized.

Numbers within parentheses: ( ) indicate costs or losses

This fiscal note contains 6 pages.

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**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Elementary and Secondary Education (DESE)** state under this proposal, the following issues would be put to a vote of the people in November, 2000:

- (1) Limit the amount of federal income taxes paid which may be taken as a deduction for purposes of computing Missouri state income tax liability. This will increase income tax liabilities for some Missouri taxpayers;
- (2) Exempt sales of food from local option sales tax;
- (3) Create the "Local Revenue Replacement Fund". Additional revenue attributable to the limitation on federal deductibility is to be deposited into the Local Revenue Replacement Fund, less 2% for administration purposes. Revenues lost by local political subdivisions from the exemption on food sales are to be replaced by revenues from the Local Revenue Replacement Fund.

The DESE assumes this proposal will have no fiscal impact on their agency.

Officials from the **Department of Revenue (DOR)** state this proposal eliminates the local sales tax on food and replaces the lost revenue to political subdivisions by limiting the Federal Income Tax (FIT) deduction for individuals to \$3,300 for a single return and \$6,600 for a combined return. The DOR states this proposal does not deal with how the loss in sales tax to political subdivisions would actually be distributed. The DOR assumed they would be responsible for computing this loss for each political subdivision and using funds collected from this reduced federal tax deduction to replace and subsequently disburse these funds.

The DOR states that to reduce the federal tax deduction on the Missouri return will require major changes in the MINITS system (individual system). The DOR forecasts 952 hours @ \$22.00 per hour to accomplish. The MITS system (sales tax system) will also require changes to eliminate the food sales tax, and to build a distribution data base that computes and sends checks to 800 or so political subdivisions to replace the food sales tax. To build this distribution system and make other modifications, the DOR forecasts 4,541 programming hours at \$23.00 per hour plus roughly \$35,700 in additional data storage costs. In addition, the DOR will require 1 Tax Processing Technician to handle correspondence from cities and counties and administer the distribution system, and 3 additional Tax Processing Technicians to deal with additional errors and correspondence (around 120,000) that the DOR will incur from reducing the federal income tax deduction.

ASSUMPTION (continued)

**Oversight** assumes the DOR will require the three Tax Processing Technicians starting in FY 2002 and that additional floor space will not be necessary. Oversight also assumes the programming changes would be started and completed in FY 2002.

In a similar proposal from this year, officials from the **Office of Administration, Budget and Planning** estimated the revenue impact of both the food exemption from sales tax and the increased income tax revenue from the decrease in federal income tax deduction. The reduction in sales tax revenue is estimated to be \$0 in FY 2001, \$124.43 million in FY 2002, and \$126.92 million in FY 2003, based on an average local sales tax rate of 1.5 percent. The increase in income tax revenue from the decreased federal income tax deduction is estimated to increase revenue to the state by \$0 in FY 2001, \$104.9 in FY 2002, and \$112.2 million in FY 2003.

**Oversight** assumes, pending voter approval in November, 2000, the effective date of the sales tax exemption for food on local sales taxes will be July 1, 2001 (FY 2002). The corresponding effective date of the decrease in federal income tax deduction would occur for all tax years beginning on or after January 1, 2001, which would be realized by the state on returns filed starting January 1, 2002 (FY 2002).

Officials from the **Department of Higher Educations** state this proposal will not fiscally impact their agency, but did state that this proposal may trigger additional Hancock Amendment refunds as a result of the increased income tax revenue.

The **State Treasurer's Office** and the **State Tax Commission** assume this legislation will not fiscally impact their agencies.

In a similar proposal from this year, The **Secretary of State's Office** stated advertisement costs for the proposal would be \$4,380 per newspaper column inch for three publications of the text of the proposal, the introduction, title, fiscal note summary, and affidavit. The proposal would be on the ballot for the November 2000 general election.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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**GENERAL REVENUE FUND**

<u>Costs - Secretary of State</u>			
Newspaper Advertisements	(\$481,800)	\$0	\$0

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2001 (10 Mo.)	FY 2002	FY 2003
<u>Costs - Department of Revenue</u>			
Personal Service (3 FTE)	\$0	(\$62,029)	(\$63,580)
Fringe Benefits	\$0	(\$19,074)	(\$19,551)
Expense and equipment	\$0	(\$11,220)	(\$1,000)
Programming changes	\$0	(\$164,864)	\$0
Total <u>Costs</u> - DOR	<u>\$0</u>	<u>(\$257,187)</u>	<u>(\$84,131)</u>
<u>Loss - General Revenue Fund</u>			
Loss of 1% collection fee on sales tax revenue on food.	\$0	(\$1,244,300)	(\$1,269,200)
<u>Revenue - General Revenue Fund</u>			
Revenue from decreased FIT deduction.	\$0	\$104,900,000	\$112,200,000
<u>Cost - General Revenue Fund</u>			
Transfer to Local Revenue Replacement Fund (revenue less a 2% administration fee)	\$0	(\$102,802,000)	(\$109,956,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$481,800)</u></b>	<b><u>\$596,513</u></b>	<b><u>\$890,669</u></b>

**-SUBJECT TO APPROPRIATION-**

**LOCAL REVENUE REPLACEMENT FUND**

<u>Income</u> - Transfers from the General Revenue Fund	\$0	\$102,802,000	\$109,956,000
<u>Costs</u> - Distributions to the Local Political Subdivisions	<u>\$0</u>	<u>(\$102,802,000)</u>	<u>(\$109,956,000)</u>
<b>NET EFFECT ON LOCAL REVENUE REPLACEMENT FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>

**-SUBJECT TO APPROPRIATION-**

<u>FISCAL IMPACT - Local Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
<b>POLITICAL SUBDIVISIONS</b>			
<u>Costs</u> - Lost Revenue from sales tax exemption on food	\$0	(\$123,185,700)	(\$125,650,800)
<u>Income</u> - Distributions from the Local Revenue Replacement Fund	\$0	\$102,802,000	\$109,956,000
<b>NET EFFECT ON POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>(\$20,383,700)</u></b>	<b><u>(\$15,694,800)</u></b>

FISCAL IMPACT - Small Business

Small businesses who sell certain foods would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these items. Small businesses who would purchase food would pay less for such items.

DESCRIPTION

This act exempts retail sales of food as defined in Section 144.014, RSMo, from local sales tax and offsets lost revenue with funds generated by reduction in size of federal income tax deduction, subject to referendum.

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

L.R. NO. 4227-01  
BILL NO. SB 909  
PAGE 6 OF 6  
February 16, 2000

SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
    Budget and Planning  
State Treasurer's Office  
State Tax Commission  
Department of Higher Education  
Department of Elementary and Secondary Education  
Office of the Secretary of State



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Director  
February 16, 2000