

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1290-07
Bill No.: Perfected SS for SCS for SBs 334 & 228
Subject: Revenue Dept.; Taxation and Revenue - Sales and Use; Business and Commerce
Type: Original
Date: May 1, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	Less than \$18,496,156	Unknown to (\$2,399,817)	Unknown
School District Trust	(\$727,478)	(\$757,642)	\$0
Conservation	(\$90,935)	(\$94,705)	\$0
Parks and Soil	(\$72,748)	(\$75,764)	\$0
Total Estimated Net Effect on <u>All</u> State Funds	LESS THAN \$17,604,995	UNKNOWN to (\$3,327,928)	UNKNOWN

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0 to (\$1,136,462)	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Sales Tax Holiday

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this portion of the proposal would allow for a sales tax “holiday” on the purchase of clothing and shoes. SCS for SB 334 & 228 adds various “school supplies” to the items that would qualify for the sales tax holiday.

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.9% of U.S. totals. BAP staff estimates taxable sales for FY2002 to be \$6,427,700,000, taxable sales for FY 2003 to be \$6,686,100,000 and taxable sales for FY 2004 to be \$6,953,544,000.

BAP states, as was the case with similar proposals from last year, there is no information available that addresses what percent of these expenditures would qualify for the exemption or how effective this program would be in so far as motivating the public to shop for clothing during the tax “holiday”.

BAP has estimated the level of Missouri consumer spending on “Stationary/School” supplies for FY02 at \$210,540,000 and for FY03 at \$277,380,000. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.9% of the national total which is Missouri’s share of U.S. personal income. Growth of 8.0% is assumed for 2001 and beyond, as 8.0% was the growth rate seen in 2000, the most recent year of actual data.

Oversight based the revenue estimate on 4/365 of the FY 2002 taxable sales resulting in a loss to state funds of \$4.2 million in FY 2002 and \$3.2 million in FY 2003 due to the sales tax holidays. No adjustment was made for the \$100 cap. **Also, no adjustment was made for any incentive effect this portion of the proposal might have on spending habits. The actual loss to state funds from this sales tax holiday could be significantly higher than estimated.** Oversight assumes the Department of Revenue will enforce the provisions of the bill through post-audit in the field. If compliance is not monitored, the revenue impact could increase.

Officials of the **Department of Revenue (DOR)** state this portion of the legislation creates both a state and local sales and use tax holiday for all retail sales of clothing and school supplies with a taxable value of one hundred dollars or less for a nine day period beginning at 12:01 a.m. on the first Saturday in August and ending at midnight on the second Sunday following. This portion of the legislation also indicates that the revenue lost the first year shall be reimbursed to the local subdivisions.

ASSUMPTION (continued)

DOR will have to notify all sales tax accounts of the holiday period. 127,000 notification letters will have to be sent to the registered accounts at a cost of \$43,910. This will have to be done in July for the August period.

This portion of the legislation does not specify who will track and distribute the lost revenue back to the political subdivisions. DOR assumes the responsibility for the tracking of the clothing and school supply sales will be in DOR and DOR will need the sales tax returns modified with a new location for clothing to have the clothing separately stated. This will complicate the returns for single locations making them file two location vouchers and two location vouchers will be switched to long form. DOR will need one Tax Processing Clerk for every additional 34,000 errors generated, One Clerk II for pre-edit for every 184,000 returns impacted and one Data Entry Operator I for every 170,000 returns impacted. MITS mainframe system will need to be modified to recognize the new item tax. The figures reported on the new item tax will need to be calculated and broken down into tax types in order to reimburse the lost revenue to the political subdivision. Programming will need to be done to both MITS and the distribution programs at a cost of \$99,677.

The Department of Revenue did not provide an estimate of revenue loss associated with this portion of the proposal.

Oversight, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by the Office of Administration, Budget and Planning and the actual impact similar legislation had on other states. Oversight assumes the mailing costs would be incurred in July before the August sales tax holiday. In addition, Oversight has included the programming costs and personnel requested by DOR since this portion of the legislation includes a reimbursement to local government for any local sales tax revenue lost for FY02 and it is assumed DOR will be required to track the sales tax revenue lost.

For a similar prior proposal, Oversight contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such "holidays" in 1997, 1998 and 1999. Oversight assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, *the Official Statistics, Statistical Abstract of the United States: 1998* to determine what Missouri's taxable sales in a similar period might be. The comparison reveals that by using the Office of Administration, Budget and Planning's estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. Oversight assumes that the same impact will occur whether the exemption applied

ASSUMPTION (continued)

to clothing or shoes under \$500 as it would for clothing under \$100. Oversight also assumes that the results could be applied over a three day exemption as it would for a seven day exemption, as it would for a thirty-one day exemption.

Sales tax refunds

Officials from the **Department of Revenue (DOR)** assume this portion of the legislation as worded would require sales tax refunds to be refunded or credited to the person who originally paid the sales tax. The person who remits the tax must demonstrate that the sales tax refund will be refunded to the person who originally paid the tax prior to DOR refunding.

DOR assumes this portion of the legislation could result in a decrease in sales tax refunds for FY 02 of approximately \$22 million. DOR does not foresee any additional savings due to the additional documentation that will be required in order to apply for a sales tax refund. DOR assumes a minimal impact on programming to be completed with existing resources.

Officials from the **Office of Administration, Budget and Planning (BAP)** state DOR is better suited to respond to this portion of the proposal.

Since DOR's estimate is based on prior year refund amounts and DOR assumes taxpayers will become better informed about sales tax rules and not overcharge customers in the future with the passage of this legislation, **Oversight** has shown the fiscal impact in FY03 and FY04 as unknown.

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
GENERAL REVENUE FUND			
<u>Revenue - General Revenue Fund</u>	Less than		
Reduction in sales tax refunds	\$22,000,000	Unknown	Unknown
<u>Transfer to Local Government</u>			
Reimbursement for loss in local sales tax revenue	(\$1,091,218)	\$0	\$0
<u>Cost - Dept. of Revenue (DOR)</u>			
Personnel (3 FTE)	(\$50,600)	(\$62,238)	\$0
Fringe Benefits	(\$16,865)	(\$20,744)	\$0
Postage	(\$43,910)	(\$43,910)	\$0
Programming & State Data Center	<u>(\$118,816)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	(\$230,191)	(\$126,892)	\$0

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<u>Loss to General Revenue Fund</u>			
Sales tax holiday	<u>(\$2,182,435)</u>	<u>(\$2,272,925)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Less than \$18,496,156</u>	<u>Unknown to (\$2,399,817)</u>	<u>Unknown</u>
<u>Loss to School District Trust Fund</u>			
Sales tax holiday	<u>(\$727,478)</u>	<u>(\$757,642)</u>	<u>\$0</u>
<u>Loss to Conservation Fund</u>			
Sales tax holiday	<u>(\$90,935)</u>	<u>(\$94,705)</u>	<u>\$0</u>
<u>Loss to Parks and Soil Funds</u>			
Sales tax holiday	<u>(\$72,748)</u>	<u>(\$75,764)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO ALL STATE FUNDS	<u>Less than \$17,604,995</u>	<u>Unknown to (\$3,327,928)</u>	<u>Unknown</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2002 (10 Mo.)	 FY 2003	 FY 2004
<u>Income from General Revenue</u>			
Reimbursement	\$1,091,218	\$0	\$0
<u>Loss to Cities</u>		\$0 to	
Sales tax holiday	<u>(\$654,731)</u>	<u>(\$681,877)</u>	<u>\$0</u>
<u>Loss to Counties</u>		\$0 to	
Sales tax holiday	<u>(\$436,487)</u>	<u>(\$454,585)</u>	<u>\$0</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>\$0</u>	<u>\$0 to (\$1,136,462)</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This legislation could affect all businesses that collect sales tax. Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt.

DESCRIPTION

Section 144.049 Sales Tax Holiday

This act creates a state and local sales tax holiday for items of clothing (costing no more than \$100 each) and school supplies (costing no more than \$50 per purchase) sold during a four-day period in August 2001 and 2002. The state will reimburse all local tax revenues lost in calendar year 2001 and individual political subdivisions may, by ordinance, opt their local sales taxes out of the holiday exemption beginning in calendar year 2002. A joint legislative committee is created to study and review the effect of the sales tax holiday and to report their findings and recommendations to the General Assembly by January 8, 2003.

The act has an emergency clause and a sunset date of July 1, 2003.

Section 144.190 Sales Tax Refunds

This bill requires that any request for a refund of sales taxes by a person who collects and remits the tax will only be granted if the person demonstrates to the satisfaction of the Director of Revenue that the amount will be refunded or credited to the person who originally paid the sales tax. The restriction will not apply if the person seeking the refund shows to the director's satisfaction that he or she originally paid the tax and that it was not collected from the purchasers.

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 Revenue
Office of Administration
Division of Budget and Planning
States of Texas, Florida and New York



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Director
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