

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 2866-01  
Bill No.: SB 780  
Subject: Cities, Towns and Villages; Counties; Political Subdivisions; Taxation and Revenue - Income, Sales and Use  
Type: Original  
Date: January 21, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$487,160)	\$755,768	\$1,069,191
Local Revenue Replacement Fund	\$0	\$0	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>(\$487,160)</b>	<b>\$755,768</b>	<b>\$1,069,191</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
<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 2003	FY 2004	FY 2005
<b>Local Government*</b>	<b>\$0</b>	<b>(\$14,772,864)</b>	<b>(\$12,430,586)</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 7 pages.

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal exempts food from local sales tax and replaces the lost revenues by lowering the limit of deduction on the federal tax. Systems will need to be developed to determine the lost revenue to political subdivisions and distribute the increase revenue from the decrease in the federal income tax deduction to the locals.

DOR will need the following: Business Tax will need 1 Tax Processing Tech I to assist in the distribution process and to continually work with the cities and counties. Initial mailing to 20,000 accounts will be done by DOR to advise of the change in the Food exemption. Personal Tax will have an increase number of returns the first year for financial corrections and will need 1 Tax Processing Tech I for every 30,000 additional errors and 1 Tax Processing Tech 1 for every additional 3,000 pieces of correspondence generated by this legislation. In addition, Customer Assistance will need one TCT I for every 24,000 additional calls received on the income tax hotline. As well as one TCT I for every 15,000 additional calls received on the 7200 hotline on bills due to the deduction errors.

Mainframe systems (MITS and MINITS) will need to be modify to handle the changes in this legislation. Programming costs of MITS will be \$92,340 for 2,768 hours and MINITS will require 692 hours at a cost of \$23,085. State data center charges to implement the legislation are \$22,516.

**Oversight** assumes DOR will require the Tax Processing Technicians starting in FY 2004 and that additional floor space will not be necessary. Oversight also assumes the programming changes would be started and completed in FY 2004.

Officials from the **Office of Administration, Budget and Planning (BAP)** did not respond to our fiscal note request. However, in a similar prior proposal, officials from the BAP 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 \$126.9 million in FY 2003, and \$129.5 million in FY 2004, 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 \$109.9 million in FY 2003 and \$118.4 million in FY 2004.

**Oversight** assumes, pending voter approval in November, 2002, the effective date of the sales tax exemption for food on local sales taxes will be July 1, 2003 (FY 2004). The corresponding effective date of the decrease in federal income tax deduction would occur for all tax years beginning on or after January 1, 2003, which would be realized by the state on returns filed

ASSUMPTION (continued)

starting January 1, 2004 (FY 2004). Oversight assumes the reduction in sales tax revenue will be approximately \$132 million in FY 2005. In addition, Oversight assumes the increase in income tax revenue from the decreased federal income tax deduction is estimated to increase revenue to the state by \$117 million in FY 2004 and \$122 million in FY 2005 (growth rate of 4.3 percent was assumed).

Officials from the **State Tax Commission (TAX)** and the **State Treasurer's Office (STO)** assume this legislation will not fiscally impact their agencies.

Officials from the **Department of Elementary and Secondary Education (DES)** state under this proposal, the following issues would be put to a vote of the people in November, 2002:

- (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.

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

Officials from the **Office of the Secretary of State (SOS)** assume this legislation could require printing additional pages in the *Missouri Register* and the *Code of State Regulations*. These publications are printed by the State Printing Center, which may be impacted by this proposal.

SOS states this bill creates a tax deduction for federal income tax liability and creates the Local Revenue Replacement Fund which may allow DOR to promulgate rules to implement the bill. Based on experience with other divisions, the rules, regulations and forms by DOR could require as many as approximately 6 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The cost for FY 2003 is estimated at \$369.00. The actual costs could be more or less than the numbers given. The impact of this legislation in future years

ASSUMPTION (continued)

is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn.

**Oversight** assumes SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In a similar prior proposal, SOS 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 2002 general election.

**This legislation would decrease Total State Revenue for FY 2003, then increase Total State Revenue beginning in FY 2004.**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Costs - Secretary of State</u>			
Newspaper Advertisements	(\$481,800)	\$0	\$0
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	\$0	(\$21,772)	(\$22,265)
Temp. Personal Service (4)	\$0	(\$86,888)	(\$18,555)
Fringe Benefits	\$0	(\$7,422)	(\$7,590)
Expense and Equipment	\$0	(\$36,131)	(\$3,071)
Programming changes	\$0	(\$137,941)	\$0
Postage	(\$5,360)	\$0	\$0
Total <u>Costs</u> - DOR	(\$5,360)	(\$290,154)	(\$51,481)
<u>Loss - General Revenue Fund</u>			
Loss of 1% collection fee on sales tax revenue on food.	\$0	(\$1,294,570)	(\$1,320,461)

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<u>Revenue - General Revenue Fund</u>			
Revenue from decreased FIT deduction.	\$0	\$117,024,600	\$122,056,658
<u>Cost - General Revenue Fund</u>			
Transfer to Local Revenue Replacement Fund (revenue less a 2% administration fee)	<u>\$0</u>	<u>(\$114,684,108)</u>	<u>(\$119,615,525)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$487,160)</u></b>	<b><u>\$755,768</u></b>	<b><u>\$1,069,191</u></b>

**SUBJECT TO APPROPRIATION**

**LOCAL REVENUE REPLACEMENT FUND**

<u>Income</u> - Transfers from the General Revenue Fund	\$0	\$114,684,108	\$119,615,525
<u>Costs</u> - Distributions to the Local Political Subdivisions	<u>\$0</u>	<u>(\$114,684,108)</u>	<u>(\$119,615,525)</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 2003 (10 Mo.)	FY 2004	FY 2005
<b>POLITICAL SUBDIVISIONS</b>			
<u>Income</u> -Distributions from the Local Revenue Replacement Fund	\$0	\$114,684,108	\$119,615,525
<u>Costs</u> - Lost Revenue from sales tax exemption on food	<u>\$0</u>	<u>(\$129,456,972)</u>	<u>(\$132,046,111)</u>

FISCAL IMPACT - Local Government

FY 2003  
(10 Mo.)

FY 2004

FY 2005

**NET EFFECT ON POLITICAL  
SUBDIVISIONS**

\$0

(\$14,772,864)

(\$12,430,586)

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

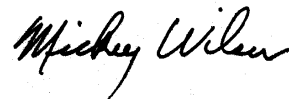
This act exempts retail sales of food as defined in Section 144.014, RSMo, from local sales tax and offsets lost revenue with funds generated by reduction in size of federal income tax deduction, subject to referendum.

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

SOURCES OF INFORMATION

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

NOT RESPONDING: Office of Administration, Budget and Planning



Mickey Wilson, CPA

L.R. No. 2866-01  
Bill No. SB 780  
Page 7 of 7  
January 21, 2002

Acting Director  
January 21, 2002