

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3886-02
Bill No.: SB 975
Subject: Taxation and Revenue - Sales and Use; Business and Commerce
Type: Original
Date: January 28, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$4,865,225)	(\$6,199,074)	(\$6,587,430)
School District Trust	(\$1,612,808)	(\$2,057,425)	(\$2,186,877)
Conservation	(\$201,601)	(\$257,178)	(\$273,360)
Parks and Soil	(\$161,281)	(\$205,742)	(\$218,688)
Total Estimated Net Effect on <u>All</u> State Funds	(\$6,840,915)	(\$8,719,419)	(\$9,266,355)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
None			
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	(\$2,419,212)	(\$3,086,137)	(\$3,280,315)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow for a sales tax “holiday” for a specified period for specified items.

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 1.8% of U.S. totals. BAP staff estimates taxable sales for FY2003 to be \$6,802,000,000 and taxable sales for FY 2004 to be \$7,197,000,000.

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 FY03 at \$241,000,000 and for FY04 at \$266,000,000. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri’s share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 1999 and 2000.

Also, BAP has estimated the level of Missouri consumer spending on “Computer, software, et al” supplies for FY03 at \$806 million and for FY04 at \$881 million. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri’s share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 1999 and 2000.

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a sale tax holiday in August for clothing valued at \$100 or less, school supplies valued at \$25 or less and personal computers valued at \$2,000 or less.

DOR will have to notify all sales tax accounts of the holiday period. 100,000 notification letters will have to be sent to the registered accounts at a cost of \$26,800. This will have to be done in July for the August period. The DOR did not provide an estimate of revenue loss associated with this proposal.

ASSUMPTION (continued)

Oversight, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by BAP and the actual impact similar legislation had on other states. The revenue estimate was based on 9/365 of the fiscal year taxable sales, resulting in a loss of \$6.8 million in state funds due to the sales tax holiday for FY03, \$8.7 million in FY04, and \$9.3 million in FY05. No adjustment was made for the \$100 cap, \$25 cap, and \$2,000 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. Oversight assumes the mailing costs would be incurred in July before the August sales tax holiday.

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: 2000* 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 to clothing or shoes under \$500 as it would for clothing under \$100. Oversight also assumes that the results could be applied over a nine day exemption as it would for a seven day exemption, as it would for a thirty-one day exemption.

This legislation will decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
GENERAL REVENUE FUND			
<u>Cost - Dept. of Revenue (DOR)</u>			
Postage	(\$26,800)	(\$26,800)	(\$26,800)

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<u>Loss to General Revenue Fund</u>			
Sales tax holiday	<u>(\$4,838,425)</u>	<u>(\$6,172,274)</u>	<u>(\$6,560,630)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$4,865,225)</u>	<u>(\$6,199,074)</u>	<u>(\$6,587,430)</u>
<u>Loss to School District Trust Fund</u>			
Sales tax holiday	<u>(\$1,612,808)</u>	<u>(\$2,057,425)</u>	<u>(\$2,186,877)</u>
<u>Loss to Conservation Fund</u>			
Sales tax holiday	<u>(\$201,601)</u>	<u>(\$257,178)</u>	<u>(\$273,360)</u>
<u>Loss to Parks and Soil Funds</u>			
Sales tax holiday	<u>(\$161,281)</u>	<u>(\$205,742)</u>	<u>(\$218,688)</u>
ESTIMATED NET EFFECT TO ALL STATE FUNDS	<u>(\$6,840,915)</u>	<u>(\$8,719,419)</u>	<u>(\$9,266,355)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2003	FY 2004	FY 2005
<u>Loss to Cities</u>			
Sales tax holiday	<u>(\$1,451,527)</u>	<u>(\$1,851,682)</u>	<u>(\$1,968,189)</u>
<u>Loss to Counties</u>			
Sales tax holiday	<u>(\$967,685)</u>	<u>(\$1,234,455)</u>	<u>(\$1,323,126)</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	<u>(\$2,419,212)</u>	<u>(\$3,086,137)</u>	<u>(\$3,280,315)</u>
<u>FISCAL IMPACT - Small Business</u>			

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

DESCRIPTION

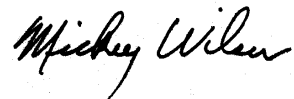
This act creates a sales tax holiday for clothing valued at one hundred dollars or less and school supplies valued at twenty-five dollars or less. It also creates a holiday for sales of computers and related equipment valued at two thousand dollars or less. The annual holiday shall last for nine days beginning on the first Saturday in August.

The act has an emergency clause.

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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