

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0708-01
Bill No.: HB 223
Subject: Taxation and Revenue - General; Health Care
Type: Original
Date: February 10, 2009

Bill Summary: Would authorize a sales tax exemption and an income tax deduction for amounts expended for fitness dues or fees and fitness equipment.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(\$48,301,574)	(\$48,409,268)	(\$48,418,547)
Total Estimated Net Effect on General Revenue Fund	(\$48,301,574)	(\$48,409,268)	(\$48,418,547)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
School District Trust	(\$6,400,000)	(\$6,400,000)	(\$6,400,000)
Conservation Commission	(\$800,000)	(\$800,000)	(\$800,000)
Parks, and Soil and Water	(\$600,000)	(\$600,000)	(\$600,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$7,800,000)	(\$7,800,000)	(\$7,800,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	8	8	8
Total Estimated Net Effect on FTE	8	8	8

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	(\$5,500,000)	(\$5,500,000)	(\$5,500,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** provided the following response.

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 \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization. BAP officials also provided this estimate of the fiscal impact.

ASSUMPTION (continued)

A. Health Club Dues and Fees

This proposal would exempt health club dues and fees from sales tax. According to the 2002 US economic census, fitness and recreational sports centers in Missouri had receipts in the amount of \$177 million. Assuming a growth rate of 3% each year, estimated receipts in 2009 would be \$218 million. Therefore, this proposal could reduce general and total state revenues by the following amounts annually:

GR	\$6.5 million
Education	\$2.2 million
Conservation	\$0.3 million
DNR	\$0.2 million
Local (2.5%)	\$5.5 million

Further, \$218 million may be deducted from MO taxable income. At an effective rate of 4.5%, this proposed deduction would reduce general and total state revenues by \$9.8 million.

B. Fitness Equipment Sales for Home Use

This proposal would provide an income tax deduction and sales tax exemption for fitness equipment purchased for private home use. BAP has no specific data on fitness equipment sales; however, the US BEA reports in table 2.5.5 of the National Income and Product Accounts that, in 2007, \$74.3 billion was spent nationally on "nondurable toys and sports supplies". BAP assumes 30% of this figure was for fitness equipment, and that 1.9% was in Missouri, for an estimated \$424 million. Therefore, this proposal may reduce general and total state revenues by the following amounts annually:

GR	\$12.7 million
Education	\$4.2 million
Conservation	\$0.5 million
DNR	\$0.4 million

Further, \$424 million may be deducted from MO taxable income. At an effective rate of 4.5%, that proposed deduction could reduce general and total state revenues by \$19.1 million.

Oversight notes that the sales tax exemption on fitness equipment would not apply to local sales and use taxes.

ASSUMPTION (continued)

Oversight will use the BAP estimates and assume for the purposes of this fiscal note that the amount of income tax and sales tax revenue reductions would be same for FY 2010, FY 2011, and FY 2012.

Officials from the **Department of Revenue** (DOR) assume this proposal would create a new sales tax exemption and income tax deduction for amounts expended for fitness dues or fees and fitness equipment for tax years beginning on or after January 1, 2009. The deduction would be equal to the purchase price of any fitness equipment and the full amount of any fitness fees, to the extent that such amounts are not deducted on the taxpayer's federal income tax return. The Department of Revenue would promulgate rules.

Individual income tax form and instruction modifications would be required, and MINITS system modifications would be required. Sales tax form and instruction modifications would be required, and MITS system modifications would be required.

Personal Tax would require two Temporary Tax Employees for key-entry, one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 19,000 returns to be verified, one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 2,400 pieces of correspondence generated, and Sales Tax would require one FTE Revenue Processing Technician I (Range 10, Step L) for every 68,000 returns to be verified one FTE Revenue Processing Technician I (Range 10, Step L) for every 100,000 returns for pre-edit, and one FTE Revenue Processing Technician I (Range 10, Step L) for every 200,000 returns for data entry. Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for every 15,000 calls a year on the income tax phone line, one FTE Tax Collection Technician I (Range 10, Step L) for every 24,000 calls a year to the delinquency phone line, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts in the field offices.

DOR submitted an estimate of the cost to implement the proposal including eight additional employees and the related equipment and expenses totaling \$322,300 for FY 2010, \$389,508 for FY 2011, and \$401,194 for FY 2012.

Oversight has, for fiscal note purposes only, changed the starting salary the additional positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the Dor estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes that a limited number of additional employees could be accommodated in existing office space.

DOR Officials also provided this estimate of the IT cost to implement the proposal.

Officials from the Office of Administration, Information Technology Services division (ITSD/DOR) estimate the IT portion of this request could be implemented using two FTE existing CIT III for two months for system modifications to the MINITS system, and two FTE existing CIT III for two months for system modifications to the MITS system, at a total cost of \$35,528. ITSD/DOR assumes this proposal could be implemented with existing resources. However; if priorities shift, additional FTE/overtime would be needed.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (6 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Personnel (8 FTE)	(\$104,110)	(\$203,433)	(\$209,537)
Benefits	(\$50,629)	(\$98,930)	(\$101,898)
Expense and equipment	<u>(\$46,835)</u>	<u>(\$6,905)</u>	<u>(\$7,112)</u>
Total	<u>(\$201,574)</u>	<u>(\$309,268)</u>	<u>(\$318,547)</u>
<u>Revenue reduction - sales tax exemption on fitness dues and fees</u>	(\$6,500,000)	(\$6,500,000)	(\$6,500,000)
<u>Revenue reduction - sales tax exemption on fitness equipment sales</u>	(\$12,700,000)	(\$12,700,000)	(\$12,700,000)
<u>Revenue reduction - Income tax deduction for fitness dues and fees</u>	(\$9,800,000)	(\$9,800,000)	(\$9,800,000)
<u>Revenue reduction - Income tax deduction for fitness equipment purchases</u>	<u>(\$19,100,000)</u>	<u>(\$19,100,000)</u>	<u>(\$19,100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$48,301,574)</u>	<u>(\$48,409,268)</u>	<u>(\$48,418,547)</u>
Estimated net FTE effect on General Revenue Fund	8	8	8
SCHOOL DISTRICT TRUST FUND			
<u>Revenue reduction - sales tax exemption on fitness dues and fees</u>	(\$2,200,000)	(\$2,200,000)	(\$2,200,000)
<u>Revenue reduction - sales tax exemption on fitness equipment sales</u>	<u>(\$4,200,000)</u>	<u>(\$4,200,000)</u>	<u>(\$4,200,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$6,400,000)</u>	<u>(\$6,400,000)</u>	<u>(\$6,400,000)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
CONSERVATION COMMISSION FUND			
<u>Revenue reduction</u> - sales tax exemption on fitness dues and fees	(\$300,000)	(\$300,000)	(\$300,000)
<u>Revenue reduction</u> - sales tax exemption on fitness equipment sales	<u>(\$500,000)</u>	<u>(\$500,000)</u>	<u>(\$500,000)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$800,000)</u>	<u>(\$800,000)</u>	<u>(\$800,000)</u>
PARKS, AND SOIL AND WATER FUNDS			
<u>Revenue reduction</u> - sales tax exemption on fitness dues and fees	(\$200,000)	(\$200,000)	(\$200,000)
<u>Revenue reduction</u> - sales tax exemption on fitness equipment sales	<u>(\$400,000)</u>	<u>(\$400,000)</u>	<u>(\$400,000)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(\$600,000)</u>	<u>(\$600,000)</u>	<u>(\$600,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2010 (10 Mo.)	 FY 2011	 FY 2012
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - sales tax exemption on fitness dues and fees	<u>(\$5,500,000)</u>	<u>(\$5,500,000)</u>	<u>(\$5,500,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(\$5,500,000)</u>	<u>(\$5,500,000)</u>	<u>(\$5,500,000)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This proposal would authorize a sales tax exemption and an income tax deduction for amounts expended for fitness dues or fees and fitness equipment.

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 the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Revenue



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Director
February 10, 2009