COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0893-01
Bill No.: HB 814
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: March 2, 2009

Bill Summary: Would replace the state income tax with a state sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	(More than $100,000)	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund	**(More than $100,000)**	**(Unknown)**	**(Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ 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	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) provided the following estimate of the cost to publish rules for this proposal.

This proposal would require the Department of Revenue to promulgate rules. Those rules would be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions and the current rules published by the Department of Revenue regarding income tax and sales tax; the rules, regulations and forms could require as many as 290 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. The estimated cost of a page in the Missouri Register is $23, and the estimated cost of a page in the Code of State Regulations is $27.00. (($23 x 435) + ($27 x 290) = $17,835)

Oversight assumes the SOS could publish the rules with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the SOS workload, resources could be requested through the budget process.

Officials from the **Office of the Secretary of State** (SOS) also provided the following estimate of the cost to publish the statewide ballot measure language for this proposal.

Each year a number of bills are considered by the General Assembly that would require statewide elections to allow the voters to decide the issues in the legislation. State statutes require the SOS to be provided with $4.3 million in general revenue core funding to handle such special elections. The appropriation had historically been an estimated appropriation because the final cost each year is dependent upon the number of special elections required to fill vacant legislative seats and the number of ballot measures approved by the General Assembly. However, in recent years an estimated appropriation has only been provided in presidential primary years. Therefore, the SOS assumes for the purposes of this fiscal note that it should have the full appropriation authority it needs to meet these special election costs. However, we reserve the right to request funding if needed to meet these mandatory requirements.

Oversight assumes that this proposal would be submitted to the voters on a general election ballot and that the cost to the SOS could be absorbed with existing resources.

ASSUMPTION (continued)

Officials from the **Office of the State Courts Administrator** and the **Office of Administration**, **Administrative Hearing Commission** assume this proposal would have no fiscal impact to their organizations.

Officials from the **Office of the Attorney General** assume that any potential this from this proposal could be absorbed with existing resources.

Although they did not respond to our request for information, officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume a similar proposal in the previous session (HCS for HB 2112 LR 4496-05, 2008) would not result in additional costs or savings to their organization.

BAP officials stated that the proposal would eliminate taxes on income in Missouri and replace them with a sales tax. The proposal would require all lost revenues to be replaced. Therefore, BAP assumed the proposal would have a neutral impact on general and total state revenues.

Officials from the **Department of Revenue** (DOR) assume this proposal would replace all state income taxes with a statewide sales tax for tax years beginning on or after January 1, 2011. Revenue lost as a result of the repeal of the income tax would be replaced by a levy on all use or consumption of taxable property or services. The sales tax rate would be five and eleven one-hundredths percent, and DOR would develop a method for providing a monthly sales tax rebate for qualified families. The General Assembly could enact one adjustment if the revenue lost as a result of the prohibition on income taxation of income is greater than or less than the revenues received from the new sales tax.

The proposal provides for the issue to be submitted to the voters for approval or rejection.

DOR would promulgate rules to implement the provisions of this section. Extensive programming to the MITS system would be required; possible reprogramming or elimination of the MINITS system would be required;

ASSUMPTION (continued)

Administrative Impact

The Taxation Division assumes that extensive programming modifications would be required before DOR could prepare cost analysis. It is assumed that resources could be moved throughout the department as needed; therefore, at this time, DOR is assuming no additional full time employees would be needed.

The Motor Vehicle Bureau would be required to modify procedures and change tax rate tables, notify dealers, leasing companies, salvage business licensees, annually of the new tax rates, and change the tax rate tables. The Bureau estimated a cost per year of $3,779 for notifications.

Officials from the **Office of Administration**, **Information Technology Services Division** (ITSD/DOR) stated that estimated cost of staff time to implement this proposal is unknown, but is projected to be $186,522 or greater. ITSD/DOR officials assume this proposal could be implemented with existing staff; however, if priorities shift, additional FTE overtime would be needed.

Oversight assumes that DOR could implement the proposal with existing IT resources, and could request additional funding through the budget process if needed. Oversight will indicate an unknown cost in excess of $100,000 in FY 2010 for consulting or other expenditures for the analysis and design of a replacement revenue system.

Oversight assumes that the resources currently devoted to operating the income tax systems would no longer be needed, resulting in unknown cost reductions. Oversight assumes these resources could be applied to the operation of an expanded sales tax system. Oversight also notes that the Missouri income tax system is partly based on the federal income tax system; an expanded sales tax system would be operated independently. Because of the standalone nature of the proposed sales tax system and the requirement to develop a monthly rebate system for qualified families, Oversight assumes the sales tax system would require more resources than the income tax system. Oversight will indicate an unknown impact for increased DOR operating costs for FY 2011 and FY 2012.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would, if enacted, create the Fair Tax Act of 2009 which would replace the state individual income tax, corporate income tax, corporate franchise tax, and estate tax with a state sales tax.

Specifically, beginning January 1, 2011, the individual income tax, corporate income tax, corporate franchise tax, and estate tax would be replaced with a state sales tax at a rate of 5.11%. The General Assembly could make one adjustment to the rate after its imposition to make the fair tax revenue-neutral and to provide continued funding for programs. Sales tax exemptions would be eliminated and tax credits would be phased-out. Each family would receive a monthly sales tax rebate based on the number of members in the family and the federal poverty level guidelines to offset the sales tax on basic necessities. The proposal would be submitted to the voters in November 2009.

As written, the proposal is constructed to be revenue-neutral. As such, there would be no revenue impact associated with this proposal.

Oversight assumes this proposal would be implemented in a way that would provide statewide sales tax revenues equivalent to the income and other taxes that would be repealed.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Cost - Department of Revenue Study of replacement revenue system.	(More than $100,000)	$0	$0
Cost - Department of Revenue Operations	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $100,000)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which would collect and remit the state sales tax.

FISCAL DESCRIPTION

This proposal would replace the state income tax with a state sales tax.

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 the Attorney General
Office of State Courts Administrator
Office of Administration
    Administrative Hearing Commission
Department of Revenue
University of Missouri
    Economic Policy Analysis and Research Center

NOT RESPONDING

Office of Administration
    Division of Budget and Planning

Mickey Wilson, CPA
Director

SS:LR:OD (12/02)

March 2, 2009