

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1039-02
Bill No.: HB 318
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue -
 Income; Taxation and Revenue - Sales and Use
Type: Original
Date: March 3, 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 <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

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
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.
 $((\$23 \times 435) + (\$27 \times 290) = \$17,835)$

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** assumed a similar 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.

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 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, 2012. The proposal provides for the issue to be submitted to the voters for approval or rejection.

DOR would be required to submit a report to the General Assembly not later than January 1, 2011 recommending the repeal of income tax laws, repeal and re-enactment of sales and use tax laws, and enactment of provisions relating to the implementation of the proposal.

DOR would promulgate rules to implement the provisions of this section. Extensive programming to the MITS system would be required and reprogramming or elimination of the MINITS system could possibly be required. DOR officials stated they were not able to estimate the administrative impact of this proposal at this time.

DOR officials assume that a consultant would be needed to design the methodology required by this legislation, as Taxation is uncertain if the Department could make accurate assumptions. DOR cannot estimate the approximate cost of a consultant for this legislation but assumes the cost would be more than \$100,000.

DOR officials assume that resources could be moved throughout the department as needed. At this time, the Department is assuming no additional full time employees would be needed.

ASSUMPTION (continued)

Administrative Impact

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 range from \$652,162 to \$1,073,392.

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.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assumed that a similar 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. 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.

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

FISCAL IMPACT - Small Business

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

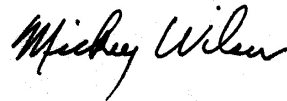
FISCAL DESCRIPTION

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
 Division of Budget and Planning
Department of Revenue
University of Missouri
 Economic Policy Analysis and Research Center



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Director
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