COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1307-02
Bill No.: HCS for HB 553
Subject: Motor Vehicles; Revenue Dept.; Tax Credits; Taxation and Revenue - Income
Type: Original
Date: March 24, 2009

Bill Summary: Would provide a tax credit equal to 100% of the state sales tax paid on any motor vehicle assembled and purchased in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0	($7,244,228 to $9,596,919)	($7,284,011 to $9,636,702)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($7,244,228 to $9,596,919)**	**($7,284,011 to $9,636,702)**

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
General Revenue	0	3	3
Total Estimated Net Effect on FTE	**0**	**3**	**3**

☐ 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 to (Unknown)**	**$0 to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that 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 there would be no added cost to their organization. BAP officials also provided an estimate of the fiscal impact to the state.

This proposal would create a tax credit equal to the sales tax paid on sales of new vehicles assembled and sold in Missouri. Data from the Department of Revenue indicates there were 9,685 new vehicles that were assembled in Missouri and sold by Missouri dealers during FY'06, accounting for $7,174,057 in state sales tax. In addition, there were 10,628 new ATV's sold by Missouri dealers accounting for $2,352,691 in state sales tax. BAP does not have information on how many of these units were assembled in Missouri. Therefore, BAP estimates that general and total state revenues may be reduced by $7.2 million to $9.5 million annually.

Oversight has no information regarding ATV manufacturers in Missouri, and will assume the fiscal impact from this proposal could range from $7,174,057 to $9,526,748 per year.

Officials from the **Department of Transportation** (MODOT) assume this proposal would have no fiscal impact on their organization.

Officials from the **University of Missouri**, **Economic Policy Analysis and Research Center** stated they did not have the data available which would be required to prepare an estimate of the fiscal impact of this proposal.

ASSUMPTION (continued)

Although they did not respond to our request for fiscal information on this version of the proposal, officials from the **Department of Insurance, Financial Institutions and Professional Registration** (DIFP) stated in response to a previous version that it is unknown how many insurance companies would choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between the General Revenue Fund and the County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds would be impacted by tax credits each year.

DIFP officials stated that implementing the proposal would require minimal contract computer programming to add this new tax credit to the premium tax database and could do so under an existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

Oversight assumes this proposal could be implemented by DIFP with existing resources.

Officials from the **Department of Revenue** (DOR) assume this proposal would, beginning January 1, 2010, provide a tax credit to any individual or entity subject to the tax imposed in chapter 143, excluding withholding tax, or the tax imposed in chapter 147, 148, or 153. The tax credit would be equal to the amount of state sales tax paid on the purchase of a qualifying vehicle assembled and sold in the state. The credit would be refundable and could be transferred, sold, or assigned.

DOR officials assume the proposal would allow a tax credit for only those motor vehicles which are defined by current statutory provisions.

The proposal would not prohibit the levy of any local sales tax, on any sales of new motor vehicles assembled and sold in the state on or after January 1, 2009; however, a political subdivision which has enacted a local sales tax on such sales may by order or ordinance exempt such sales from the local sales tax law.

DOR would promulgate rules for the program.

ASSUMPTION (continued)

DOR officials stated that individual income tax forms and instruction changes would be required, corporate income tax forms and instruction changes would be required, sales tax forms and instruction changes would be required, and MINITS system changes would be required. New form would be required for the tax credit, and COINS and CAFÉ system changes would be required. MITS system changes would be required, and Insurance Premium Tax system changes would be required.

DOR officials also stated that the exemption from local tax would require significant programming for motor vehicle. In order to capture this in MITS, item taxes would have to be added to motor vehicle taxes to account for a reduction in rate for in-state. Therefore, just using site codes would no longer work for motor vehicle purposes. DOR officials stated that they would have to convert to city/county combinations and account for the item tax in MTAS in order to properly feed the motor vehicle account. For MITS, Taxation would have to establish multiple item records to exempt either city, county, or district taxes from motor vehicles.

In addition, DOR officials stated that Taxation's assumption is that the Motor Vehicle system programmers would assign new motor vehicle codes, and all the programming would be on the MITS side.

DOR Business Tax officials stated that the inclusion of Chapter 148 could potentially impact the Insurance Premium Tax system and may require the addition of a new field in the Insurance Tax System if we need to key and track this credit information.

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

Officials from the Office of Administration, Information Technology Services Division, (ITSD/DOR) estimates that this legislation could be implemented using six existing CIT III's for one month at a total cost of $26,646. ITSD/DOR officials assume the IT portion of this proposal could be implemented with existing resources. If priorities shift, additional FTE or overtime would be needed.

DOR officials provided an estimate of the cost to implement this proposal including three additional employees with related equipment and expenditures totaling $115,843 for FY 2010, $123,257 for FY 2011, and $126,954 for FY 2012.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Oversight assumes that this proposal would become effective in January, 2010 and that the fiscal impact to the state would begin with 2010 tax returns filed in January, 2011 (FY 2011). Oversight will include an adjusted estimate of DOR costs for six months in FY 2011.

Because the local sales tax exemption would depend on action taken by the local governments, Oversight will indicate a fiscal impact of $0 to (Unknown) for local governments.

This proposal could decrease Total State Revenue.

FISCAL IMPACT - State Government	FY 2010	FY 2011 (6 Mo.)	FY 2012
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Personal Service (3 FTE)	$0	($35,041)	($72,184)
Fringe Benefits	$0	($17,040)	($35,103)
Expense and Equipment	$0	($18,090)	($2,667)
Total Costs	$0	($70,171)	($109,954)
Revenue Reduction - Income Tax			
Qualifying vehicle tax credit	$0	($7,174,057 to $9,526,748)	($7,174,057 to $9,526,748)
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	**$0**	**($7,244,228 to $9,596,919)**	**($7,284,011 to $9,636,702)**
Estimated Net FTE Change for General Revenue Fund	0	3	3

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENT			
Revenue reduction - sales tax exemption	$0	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	**$0**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT - Small Business

Small businesses that purchase Missouri-made vehicles may qualify for the tax credit and have a positive fiscal impact as a result of this proposal.

FISCAL DESCRIPTION

This proposal would provide an income tax credit equal to 100% of the state sales tax paid on any motor vehicle assembled and purchased in Missouri.

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
Department of Transportation
University of Missouri
Economic Policy Analysis and Research Center

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