

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1101-01
Bill No.: HB 1000
Subject: Taxation and Revenue - Sales and Use; Firearms and Fireworks
Type: Original
Date: April 24, 2013

Bill Summary: This proposal would create the Second Amendment Sales Tax Holiday, which would authorize an annual state sales and use tax holiday on retail purchases of certain firearms.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue *	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund *	(More than \$100,000)	(More than \$100,000)	(More than \$100,000)

*** Oversight estimates the annual loss could exceed \$400,000 in general sales taxes from the sales tax holidays.**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Parks, and Soil and Water	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
School District Trust	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
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 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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.

ASSUMPTION (continued)

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization.

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 note this proposal would provide a two-day sales tax holiday on certain types of guns. According to the United States Bureau of Economic Analysis, sales of "sporting equipment, supplies, guns, and ammunition" totaled \$55.1 billion nationally in 2011. Assuming 1.8% of this amount was in Missouri implies up to \$992 million of Missouri sales annually. BAP officials estimate perhaps 1% of this amount would occur during the holiday, or \$10 million. Therefore, this proposal could reduce General Revenue Fund revenues by up to \$0.3 million, funds for education up to \$0.1 million, and other dedicated funds by lesser amounts. Local funds could also be reduced if subdivisions participate.

Officials from the **Department of Conservation (MDC)** assume this proposal would have an unknown negative fiscal impact on their organization, but greater than \$100,000. The proposed legislation would provide an exemption on sales tax for firearms during the period beginning at 12:01 a.m. on the fourth Friday in November and ending at midnight on the following Saturday.

MDC officials stated Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any decrease in sales and use tax collected would decrease revenue to the Conservation Sales Tax funds. MDC officials deferred to the Department of Revenue for an estimate of the anticipated fiscal impact for this proposal.

Officials from the **Department of Natural Resources (DNR)** assume this proposal would create the Second Amendment Sales Tax Holiday, which would authorize an annual state sales and use tax holiday on retail purchases of certain firearms during a two-day period beginning on the 4th Friday in November.

DNR officials stated the Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, any additional sales tax exemption would be an unknown loss to the Parks and Soils Sales Tax Funds.

ASSUMPTION (continued)

Officials from **St. Louis County** assume the loss to their organization would not be great, but did not provide an estimate of the fiscal impact since they could not define their sales tax base to this level of detail.

Officials from the **City of Columbia** assume this proposal would only have an impact on their organization if the City Council implemented the holiday.

Officials from the **City of Kansas City** assumed the City would have no impact from this proposal because the proposed "Second Amendment Sales Tax Holiday" would apply to local sales taxes only if the local government passes an ordinance to opt in.

Officials from the **Department of Revenue** noted this proposal would create the "Second Amendment Sales Tax Holiday." Beginning January 1, 2013 all retail sales of firearms would be exempted from sales tax from 12:01am on the fourth Friday of November until midnight on the Saturday following. The governing body of a local government could adopt the sales tax holiday; if so the local government would be required to notify the Department of Revenue no less than thirty days before the beginning date.

The holiday would not apply to retailers with less than two percent (2%) of their merchandise eligible for the holiday, but those retailers would be required to offer a sales tax refund form to purchasers. The provisions would sunset on December 31, six years after the effective date unless reauthorized by the General Assembly.

Fiscal impact

This proposal would reduce the amount of sales tax revenue on the sale of firearms creating an unknown, negative impact on Total State Revenue.

ASSUMPTION (continued)

IT impact

DOR officials assume the Department and OA - ITSD (DOR) would need to make programming changes to the sales tax processing system (MITS) to create an item tax to account for the different rates where political subdivisions do not opt in to the holiday.

DOR officials provided an estimate of the IT cost to implement this proposal of \$27,266 based on 1,008 hours of programming to make changes to DOR systems.

Oversight assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the budget process.

Administrative impact

DOR officials noted there are approximately 1,400 gun dealers and 1,300 general merchandise and sporting goods stores in Missouri according to the SIC code reports.

DOR officials assume Sales Tax would be required to send letters to approximately 2,700 businesses each year at a cost shown below.

Letters	2,700 x	.025 =	\$ 67.50
Envelopes	2,700 x	.04 =	108.00
Postage	2,700 x	.46 =	<u>1,242.00</u>
Total			<u>\$1,417.50</u>

DOR officials also assume Collections and Tax Assistance would receive additional phone calls from businesses and taxpayers and would require one additional Revenue Processing Technician I (Range 10, Step L) for every additional 24,000 contacts annually to the registration phone line with CARES equipment.

The DOR estimate of cost to implement the proposal including three additional employees, the related benefits, equipment and expense, and the cost of notification to retailers; the estimate totaled \$43,459 for FY 2014, \$42,498 for FY 2015, and \$42,967 for FY 2016.

ASSUMPTION (continued)

Oversight notes this proposal would provide a brief annual sales tax holiday; the fourth Friday and the following Saturday in November. Oversight assumes DOR would notify local governments and retailers of the sales tax holiday in advance, and in regularly scheduled communications. Accordingly, Oversight assumes any additional cost to DOR related to this proposal would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred, or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Oversight located an economic study of a similar proposal in the state of South Carolina; the South Carolina Board of Economic Advisors estimated the fiscal impact of the sales tax holiday at \$418,386 for the South Carolina General Revenue Fund. That estimate was based on an estimated \$127.3 million in taxable sales and a state sales tax rate of six percent, and the assumption that firearm buyers would wait up to thirty days to make a tax-exempt purchase. Oversight also notes that South Carolina has a population of approximately 4.7 million.

Oversight assumes annual taxable sales for Missouri could be estimated as follows:

$$\text{South Carolina sales / South Carolina population} \times \text{Missouri population.} \\ ((\$127,300,000 / 4,700,000) \times 6,000,000) = \$162,510,638.$$

If Missouri purchasers would also wait up to thirty days in anticipation of the tax holiday, sales for the two day holiday period would be $(\$162,510,638 \times 30 / 365) = \$13,357,038$

Using a rounded sales estimate of \$13,400,000 the Missouri sales tax revenue reduction would be shown in this chart.

General Revenue Fund	3%	\$402,000
Conservation Commission Fund	1/8%	\$16,750
Parks, and Soil and Water Fund	1/10%	\$13,400
School District Trust Fund	1%	\$134,000

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will indicate a revenue reduction greater than \$100,000 for the General Revenue Fund and the School District Trust Fund and less than \$100,000 for the other state funds which receive general sales tax revenues. Oversight assumes any local government revenue reduction would be based on the local government's adoption of the sales tax holiday and will not include that impact in the fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Revenue reduction - DOR *</u>			
Sales tax holiday Section 144.066	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)	(More than <u>\$100,000</u>)

* Oversight estimates the annual loss could exceed \$400,000 in general sales taxes from the sales tax holidays.

**CONSERVATION COMMISSION
FUND**

<u>Revenue reduction - DOR</u>			
Sales tax holiday Section 144.066	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
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PARKS, AND SOIL AND WATER FUNDS

Revenue reduction - DOR

Sales tax holiday Section 144.066	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
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ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>	<u>(Less than \$100,000)</u>
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SCHOOL DISTRICT TRUST FUND

Revenue reduction - DOR

Sales tax holiday Section 144.066	<u>(Could exceed \$100,000)</u>	<u>(Could exceed \$100,000)</u>	<u>(Could exceed \$100,000)</u>
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(Could exceed \$100,000)</u>	<u>(Could exceed \$100,000)</u>	<u>(Could exceed \$100,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed legislation would authorize an annual state sales and use tax holiday beginning January 1, 2013, on retail purchases of certain firearms during a two-day period beginning on the fourth Friday in November. Qualifying firearms would include any handgun, rifle, or shotgun manufactured in the United States. Retailers may offer a sales tax refund in lieu of the sales tax holiday when less than 2% of their sales qualifies for the holiday. Any political subdivision may adopt an ordinance or order to opt into the holiday. The provisions of the bill would expire December 31 six years from the effective date.

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
Joint Committee on Administrative Rules
Office of Administration - Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
St. Louis County
City of Columbia
City of Kansas City



Ross Strope
Acting Director
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