

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0088-03
Bill No.: SCS for HB 245
Subject: Taxation and Revenue - Property; Department of Revenue; Motor Vehicles
Type: Original
Date: April 18, 2017

Bill Summary: This proposal would change the laws regarding sales tax on trade-in purchases of motor vehicles, trailers, boats and outboard motors. In addition, this proposal would provide an exemption from sales and use taxes on charges for initiation fees or dues for organizations exempt from taxation under Section 501(c)(7) of the Internal Revenue Code.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
General Revenue	(Less than \$3,400,000)	(Less than \$4,100,000)	(Less than \$4,100,000)
Total Estimated Net Effect on General Revenue	(Less than \$3,400,000)	(Less than \$4,100,000)	(Less than \$4,100,000)

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
School District Trust	(Less than \$1,100,000)	(Less than \$1,400,000)	(Less than \$1,400,000)
Conservation Commission	(Less than \$100,000)	(Less than \$200,000)	(Less than \$200,000)
Parks, and Soil and Water	(Less than \$100,000)	(Less than \$100,000)	(Less than \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Less than \$1,300,000)	(Less than \$1,700,000)	(Less than \$1,700,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2018	FY 2019	FY 2020
Local Government	(Less than \$4,100,000)	(Less than \$4,900,000)	(Less than \$4,900,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (B&P)** assume this proposal would reduce Total State Revenues (TSR) by less than \$5.8 million annually and would have an impact on the constitutional revenue limit calculation.

Section 144.011, RSMo.

This section would create a sales tax exemption for initiation or membership fees to any non-profit organization that is designated as a 501 (c) (7) for federal income tax purposes.

Based on data from the US Census Bureau, there were 333 businesses that could qualify with total membership fees of \$102.7 million in 2002, the most recent year data is available. Adjusting for inflation from 2002 through 2016, B&P officials estimated that total membership fees could total \$137.1 million in 2016 dollars; however, some of these businesses may already have sales tax exemptions granted by the Department of Revenue. Therefore, B&P officials assume this section could reduce TSR by less than \$5.8 million and General Revenue by less than \$4.1 million annually.

Oversight has calculated the following estimated potential revenue reduction by fund and entity using the B&P estimate of taxable sales.

Entity	Rate	FY 2018 (Ten months)	FY 2019 and FY 2020
General Revenue Fund	3.000%	\$3,400,000	\$4,100,000
School District Trust Fund	1.000%	\$1,100,000	\$1,400,000
Conservation Commission Fund	0.125%	\$100,000	\$200,000
Parks, and Soul and Water Fund	0.100%	\$100,000	\$100,000
Local Governments	3.55% *	\$4,100,000	\$4,900,000

*average local sales tax rate estimated by Oversight based on reported collections.

ASSUMPTION (continued)

Oversight has no independent information as to the amounts of sales and use taxes that are currently being collected and remitted from organizations which would be exempted by this proposal. Oversight also notes the B&P officials comments regarding existing exemptions for these organizations would tend to indicate that the revenue reduction would be less than the amounts calculated.

Oversight assumes actual current collections of sales tax from the subject organizations under existing law and DOR procedures would be less than the amounts calculated by (B&P). Oversight will indicate annual revenue reductions for these funds and entities less than the amounts calculated.

Section 144.025, RSMo.

This section would allow the trade of multiple vehicles to offset the purchase price of a new vehicle, in order to reduce sales tax. B&P officials assume this provision may have a minimal negative effect on TSR.

Oversight assumes the B&P estimate is the best available and that the fiscal estimate for this provision can be included in the assessment that the fiscal impact of the proposal could exceed \$100,000 per year.

Officials from the **Department of Revenue (DOR)** provided the following response.

Section 144.011, RSMo.

This section would exempt nonprofit organizations from taxation under Section 501 (c) (7) of the Internal Revenue Code of 1986.

Section 144.025, RSMo.

This section would allow for the issuance of 180 day sales tax credits from the sale of multiple motor vehicles, trailers, boats, or outboard motors which could then be used as a credit toward the purchase of one motor vehicle, trailer, boat, or outboard motor.

ASSUMPTION (continued)

Revenue Impact

DOR officials assume this legislation could result in an unknown increase or decrease in revenue received from sales tax collection on motor vehicles.

Administrative Impact

DOR officials assume Motor Vehicle Bureau procedures will need to be revised. This would require 40 hours for a Management Analyst Specialist I, at a cost of \$838 in FY 2018.

DOR officials also assume the Department would be able to absorb the above listed costs. If multiple bills pass which require Department resources and updates, the Department could request additional FTE's and related equipment and expenses through the appropriation process.

Oversight assumes DOR is provided with core funding to handle a certain amount of procedure changes each year, and that DOR could absorb the changes related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules St. Louis County**, and the **Jackson County Election Board** assume this proposal would have no fiscal impact on their organizations.

Officials from **Boone County** stated it is difficult to measure the fiscal impact of this proposal.

Officials from the **City of Kansas City** assume this proposal could result in a negative fiscal impact to their organization of an indeterminate amount.

Officials from the following counties: Andrew, Atchison, Audrain, Barry, Benton, Bollinger, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Christian, Clay, Cole, Cooper, Daviess, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Maries, Marion, McDonald, Miller, Mississippi, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, St. Charles, St. Louis, St. Francois, Taney, Warren, Wayne, Webster and Worth did not respond to our request for information.

ASSUMPTION (continued)

Officials the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
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GENERAL REVENUE FUND

<u>Revenue reduction</u> - sales tax exemptions	(Less than <u>\$3,400,000</u>)	(Less than <u>\$4,100,000</u>)	(Less than <u>\$4,100,000</u>)
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ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Less than <u>\$3,400,000</u>)	(Less than <u>\$4,100,000</u>)	(Less than <u>\$4,100,000</u>)
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SCHOOL DISTRICT TRUST FUND

<u>Revenue reduction</u> - sales tax exemptions	(Less than <u>\$1,100,000</u>)	(Less than <u>\$1,400,000</u>)	(Less than <u>\$1,400,000</u>)
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(Less than <u>\$1,100,000</u>)	(Less than <u>\$1,400,000</u>)	(Less than <u>\$1,400,000</u>)
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<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2018 (10 Mo.)	FY 2019	FY 2020
CONSERVATION COMMISSION FUND			
<u>Revenue reduction - sales tax exemption</u>	(Less than <u>\$100,000</u>)	(Less than <u>\$200,000</u>)	(Less than <u>\$200,000</u>)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(Less than <u>\$100,000</u>)	(Less than <u>\$200,000</u>)	(Less than <u>\$200,000</u>)
PARKS, AND SOIL AND WATER FUND			
<u>Revenue reduction - sales tax exemption</u>	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)	(Less than <u>\$100,000</u>)
<u>FISCAL IMPACT - Local Government</u>	FY 2018 (10 Mo.)	FY 2019	FY 2020
LOCAL GOVERNMENTS			
<u>Revenue reduction - sales tax exemption</u>	(Less than <u>\$4,100,000</u>)	(Less than <u>\$4,900,000</u>)	(Less than <u>\$4,900,000</u>)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(Less than <u>\$4,100,000</u>)	(Less than <u>\$4,900,000</u>)	(Less than <u>\$4,900,000</u>)

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which purchase motor vehicles, boats, motors, or trailers.

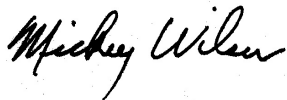
FISCAL DESCRIPTION

This proposal would change the laws regarding sales tax on trade-in purchases of motor vehicles, trailers, boats and outboard motors. In addition, this proposal would provide an exemption from sales and use taxes on charges for initiation fees or dues for organizations exempt from taxation under Section 501(c)(7) of the Internal Revenue Code.

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

Department of Revenue
Joint Committee on Administrative Rules
Office of the Secretary of State
Boone County
City of Kansas City



Mickey Wilson, CPA
Director
April 18, 2017

Ross Strobe
Assistant Director
April 18, 2017