

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5458-01
Bill No.: Truly Agreed To and Finally Passed HB 1831
Subject: Taxation and Revenue - Sales and Use
Type: Original
Date: June 28, 2018

Bill Summary: This proposal modifies laws regarding taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0 or (Up to \$317,672)	\$0 or (Up to \$381,207)	\$0 or (Up to \$381,207)
Total Estimated Net Effect on General Revenue	\$0 or (Up to \$317,672)	\$0 or (Up to \$381,207)	\$0 or (Up to \$381,207)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Conservation Commission	\$0 or (Up to \$13,356)	\$0 or (Up to \$16,027)	\$0 or (Up to \$16,207)
Parks, Soil & Water	\$0 or (Up to \$8,889)	\$0 or (Up to \$10,667)	\$0 or (Up to \$10,667)
School District Trust	\$0 or (Up to \$106,755)	\$0 or (Up to \$128,106)	\$0 or (Up to \$128,106)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or (Up to \$129,000)	\$0 or (Up to \$154,800)	\$0 or (Up to \$154,800)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
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 2019	FY 2020	FY 2021
Local Government	\$0 or (Up to \$794,084)	\$0 or (Up to \$952,901)	\$0 or (Up to \$952,901)

FISCAL ANALYSIS

ASSUMPTION

§144.011 Dues Sales Tax Exemption

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this section states that charges for membership dues and initiation fees for 501(c)(7) organizations shall not be subject to sales tax. Based on updated information from Department of Revenue, during FY 2017 a total of \$2,977,815 in sales tax was collected from 675 organizations that were classified as 501(c)(7) organizations within the DOR system. Based on information from the United States Census Bureau, approximately 21.6% of all sales from qualifying organizations could be attributed to membership dues and initiation fees. Therefore, B&P estimates that of the total sales tax collections during FY 2017, approximately \$643,208 could be attributed to membership dues and initiation fees. B&P notes that the state portion of total sales tax collections is about 36%, with the remaining 64% going to localities. Therefore, B&P estimates that this provision could reduce total state revenues by an amount that could exceed \$231,555 and local revenues by an amount that could exceed \$411,653 once fully implemented. This provision could reduce General Revenue by an amount that could exceed \$164,418 once this provision is fully implemented.

Total Sales Tax Collected from 501(c)(7) organizations - FY 2017	\$2,977,815
Estimated Percent from Dues and Initiation Fees	21.6%
Estimated Sales Tax Portion from Dues and Initiation Fees	\$643,208
Approximate State Portion of Total Sales Tax	36%
Total Estimated State Sales Taxes Collected from Membership Dues and Fees from 501(c)(7) organizations	\$231,555

Officials at the **Department of Revenue (DOR)** assume for purposes of Sections 144.010 to 144.525 and 144.600 to 144.748, and the taxes imposed thereby, the definition of "retail sale" or "sale at retail" shall not be construed to include any of the following:

13. Charges for initiation fees or dues to:

© Nonprofit organizations exempt from taxation under Section 501(c)(7) of the Internal Revenue Code of 1986, as amended.

DOR assumes in FY 2017, there were approximately 895 501(c)(7) organizations set up within DOR's system. In FY 2017, the Department collected sales tax from 675 of the 895 501(c)(7) organizations in an amount of \$2,977,815. The state receives approximately 36% of sales tax collected, the rest goes to locals.

ASSUMPTION (continued)

Therefore, DOR estimates this proposed legislation could potentially decrease state revenues by \$1,072,013 each fiscal year.

Total Sales Tax Collected from 501(c)(7) organizations 2017	\$2,977,815			
Total Remitted to State	\$1,072,013			
Fiscal Year	General Revenue	Conservation	Education	Parks, Soil
FY 2019	(\$761,130)	(\$32,160)	(\$257,283)	(\$21,440)
FY 2020	(\$761,130)	(\$32,160)	(\$257,283)	(\$21,440)
FY 2021	(\$761,130)	(\$32,160)	(\$257,283)	(\$21,440)

Oversight notes that in response to similar legislation this year, DOR assumed this proposal would have minimal impact. After further review, they have submitted the above estimates. Due to this change and information from DOR, Oversight will range the impact as \$0 (previous responses of “minimal impact”) up to the new estimates provided.

From discussions with DOR they are unable to determine how much of the total sales tax collected comes from dues, investment income, rentals etc. An organization seeking tax-exempt status may only be tax-exempt for a portion of their business. The total sales tax listed of \$2,977,815 comes from all tax-exempt organizations that owe some type of sales tax.

Oversight notes that according to the Internal Revenue Services (IRS) website:

“A social club must be supported by membership fees, dues, and assessments. A section 501(c)(7) organization may receive up to 35 percent of its gross receipts, including investment income, from sources outside of its membership without losing tax-exempt status. No more than 15 percent of the amount may be derived from use of the club’s facilities or services by the general public or from other information not furthering social or recreational purposes for members.”

ASSUMPTION (continued)

Oversight tried to contact several social club organizations but did not receive enough information to calculate how many would be paying sales tax that is currently exempt. Based on the IRS information, Oversight will assume that at least 50% of the total sales of \$2,977,815 comes from membership dues and fees, which would be exempt under this proposal.

Therefore, it is estimated that General Revenue could exceed a loss of more than \$381,207, Conservation Commission more than \$16,027, School District Trust Fund more than \$128,106 and the Parks, Soil & Water Fund more than \$10,667. Additionally, local governments could lose more than \$952,901 based on local governments receiving 64% of sales tax collections.

Officials at the **Department of Natural Resources** assume that 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 and use tax exemptions could be a loss to the Parks and Soils Sales Tax Funds. Providing state sales and use tax exemptions as stated in this proposal could decrease the amount of funding available in the Parks and Soils Sales Tax Funds. These funds have been used for the development, maintenance and operation of state parks and historic sites, and to assist agricultural landowners through voluntary programs.

The Department assumes the Department of Revenue would be better able to estimate a more detailed account of the fiscal impact.

Officials at the **Department of Conservation** assume an unknown fiscal impact on the Department but expected to be greater than \$100,000. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

§144.049 Diapers and the School Sales Tax Holiday

Officials at the **B&P** assume this section adds disposable diapers for infants and adults as well as footwear to the Back-to-School sales tax holiday. B&P notes that per DOR's website, disposable diapers and footwear are already listed as approved clothing items for the purpose of the sales tax holiday. B&P further notes that the website does not make a distinction between infant and adult diapers. However, B&P notes that this proposal would limit the exemption for diapers to only disposable and no longer allow the sales tax exemption for reusable diapers. Therefore, B&P estimates that this provision may have a minimal positive impact to Total State Revenue and General Revenue.

ASSUMPTION (continued)

Bill as a Whole

B&P assumes this may reduce Total State Revenue and may impact the calculation under Article X, Section 18(e).

Officials at the **City of Kansas City** assume a minimal negative impact.

Officials at the **City of Columbia** assume that as long as they continue to opt out of sales tax holidays, this will have no fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE			
<u>Revenue Reduction</u> - 501(c)(7) status sales tax exemption on dues	<u>\$0 or (Up to \$317,672)</u>	<u>\$0 or (Up to \$381,207)</u>	<u>\$0 or (Up to \$381,207)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or (Up to \$317,672)</u>	<u>\$0 or (Up to \$381,207)</u>	<u>\$0 or (Up to \$381,207)</u>
 CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - 501(c)(7) status sales tax exemption on dues	<u>\$0 or (Up to \$13,356)</u>	<u>\$0 or (Up to \$16,027)</u>	<u>\$0 or (Up to \$16,207)</u>
ESTIMATED NET EFFECT ON THE CONSERVATION COMMISSION FUND	<u>\$0 or (Up to \$13,356)</u>	<u>\$0 or (Up to \$16,027)</u>	<u>\$0 or (Up to \$16,207)</u>

FISCAL DESCRIPTION

This bill clarifies that disposable diapers are included in the items exempted from sales tax during the Back to School Sales Tax Holiday in August each year. (§144.049)


This bill authorizes a state and local sales and use tax exemption for initiation fees and dues paid to nonprofit organizations exempt from taxation by the IRS. (§144.011)

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

City of Columbia
City of Kansas City
Department of Conservation
Department of Natural Resources
Department of Revenue
Office of Administration
Division of Budget and Planning

Ross Strope



Acting Director
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