

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2537-04
Bill No.: HB 1
Subject: Taxation and Revenue - General; Department of Revenue; Taxation and Revenue
- Sales and Use; Motor Vehicles
Type: Original
Date: September 10, 2019

Bill Summary: This proposal modifies provisions relating to sales and use tax allowances for certain items.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

* If the baseline for the fiscal note is the bill versus current business practice within the Department of Revenue (the Supreme Court decision has not been implemented yet), then this bill would have no fiscal impact to state (or local) sales tax funds.

However, if the baseline for the fiscal note is the bill versus the Department of Revenue potentially disallowing multiple motor vehicle trade-ins and 180 day sales tax credits in order to adhere to the recent Supreme Court decision, then this bill could have a negative impact to state (and local) sales tax funds

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
School District Trust Fund (0688)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Conservation Commission Fund (0609)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Soil and Water Sales Tax Funds (0613 & 0614)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
State Road Bond Fund (0319)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
State Road Fund (0320)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
State Transportation Fund (0675)*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Fuel Local Deposit*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

* If the baseline for the fiscal note is the bill versus current business practice within the Department of Revenue (the Supreme Court decision has not been implemented yet), then this bill would have no fiscal impact to state (or local) sales tax funds.

However, if the baseline for the fiscal note is the bill versus the Department of Revenue potentially disallowing multiple motor vehicle trade-ins and 180 day sales tax credits in order to adhere to the recent Supreme Court decision, then this bill could have a negative impact to state (and local) sales tax funds

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government*	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

* If the baseline for the fiscal note is the bill versus current business practice within the Department of Revenue (the Supreme Court decision has not been implemented yet), then this bill would have no fiscal impact to state (or local) sales tax funds.

However, if the baseline for the fiscal note is the bill versus the Department of Revenue potentially disallowing multiple motor vehicle trade-ins and 180 day sales tax credits in order to adhere to the recent Supreme Court decision, then this bill could have a negative impact to state (and local) sales tax funds

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Department of Revenue (DOR)** state this proposed legislation, as written, codifies language allowing applicants multiple motor vehicle trade-in and 180 day sales tax credits. DOR states this will result in a no impact to the Department of Revenue since it simply codifies what is currently allowed (the Department's refund approval process was revised in July 2018 after the AHC Kehlenbrink ruling to allow multiple sales tax credits).

DOR notes with the Kehlenbrink vs. the Department of Revenue Supreme Court decision, a failure to pass legislation allowing multiple motor vehicle tax credits to be used against the purchase of a single unit would result in an estimated 14,089 customer transactions that would be required to pay more sales tax. However, DOR notes that due to the limitations of the Motor Vehicle and Driver Licensing system, they are unable to accurately quantify the dollar amount for those customer transactions (front end)

The Department estimated the customer estimate (14,089) by identifying 70,165 customer transactions during January through July 2019 that may have included multiple 180 day sales tax credit transactions. The Department manually reviewed 1,026 (1.46%) of those customer transactions. There were 103 (10.04%) of the 1,026 customer transactions that had multiple sales. When applying this to a full year, an estimated 14,089 customer transactions would pay more tax. However, DOR could not provide an sales tax revenue estimate for this total.

Also due to system limitations, the Department is unable to accurately estimate the amount of refunds (back end) that would be denied if the Kehlenbrink Supreme Court decision is implemented, however the impact will be minimal because most motor vehicle sales tax credits are taken at the time of titling (front end).

Oversight assumes, based on DOR's current practices, the fiscal impact of this proposal could be \$0. DOR currently allows offsetting credits for the sale of multiple vehicles, boats, trailers, and outboard motors to be applied towards the sales tax on a purchase of a motor vehicle, boat, trailer, or outboard motor as long as the articles were sold within 180 days of the new purchase. Therefore, if the baseline is assumed to be the current practice of how sales taxes are collected, then the bill would not have a fiscal impact to state (or local) sales tax collections.

However, if the baseline is DOR implementing Supreme Court decision, then this proposal would have a negative impact on sales tax collections for the state and local political subdivisions. If multiple article trade-ins or sales tax credits are no longer allowed, starting in 2020 the state will experience an increase in sales tax revenue from these transactions.

ASSUMPTION (continued)

In an attempt to estimate a fiscal impact, using DOR’s estimate of 14,089 customer transactions in which the taxpayers would pay more sales tax if multiple unit offsets were disallowed, Oversight assumed the fiscal impact of this proposal could exceed \$3 million. DOR stated they were “unable to accurately quantify the dollar amount for those customer transactions”; however, to provide the General Assembly with an estimate, Oversight will assume an aggregate value of articles sold to apply against the sales tax basis could exceed \$5,000. At \$5,000 x 14,089 items x 4.225% sales tax rate would equal \$2,978,625 in state sales tax revenue (rounded to \$3 million). However, due to the limitations of the system used by DOR and the lack of other relevant data, Oversight has little confidence in this estimate and will reflect an unknown potential loss.

Officials from DOR stated they have begun the process of updating the administrative rules to reflect the Kehlenbrink Supreme Court decision (offset is limited to a single item); however, this process can be lengthy. If the administrative rules change to allow the sale of only one item is implemented, taxpayers will be required to pay more sales tax to the state and local political subdivisions.

Therefore, Oversight will range the fiscal impact of this proposal from \$0 (DOR continues to allow multiple vehicle sales to be credited towards the sales tax basis of a newly purchased vehicle, boat, trailer, or outboard motor) or the proposal would negate a sales tax increase to the state and local political subdivisions (if the Supreme Court decision would have changed how sales taxes are calculated).

According to the Department of Revenue’s Financial and Statistical Reports, the following amounts of state sales taxes have been collected on motor vehicle (MV) sales over the previous three fiscal years (FY 2019 report is not available online). Oversight notes the amounts below do not include sales taxes collected on boats, trailers, and/or outboard motors.

Funds receiving sales tax on MV sales	FY ‘18	FY ‘17	FY ‘16
Conservation	\$14,201,414	\$14,081,049	\$13,332,253
Education	\$113,610,476	\$112,644,892	\$106,533,618
Parks & Soils	\$11,361,145	\$11,264,853	\$10,665,814
Various other funds (see page 6)	\$374,843,450	\$368,581,523	\$349,138,491
Total state sales taxes collected on MV sales	\$514,016,485	\$506,572,317	\$479,670,176

Source: DOR Financial and Statistical Reports

ASSUMPTION (continued)

The table below shows the distribution of funds of the state sales taxes on motor vehicles and marine items.

Tax	Fund	Distribution	Additional Distribution
Vehicle Sales Tax (4.225%)	Conservation Fund	0.125%	
	Soil and Water Fund	0.100%	
	State Road Bond Fund (50%)	1.500%	73% State Road Fund, 2% State Transportation Fund, 25% Fuel Local Deposit Fund (cities 15% & counties 10%)
	Highway and Transportation Use Funds (50%)	1.500%	
	School District Trust Fund	1.000%	
		4.225%	
Marine Sales Tax (4.225%)	Conservation Fund	0.125%	
	Soil and Water Fund	0.100%	
	General Revenue	3.000%	
	School District Trust	1.000%	
			4.225%

Source: DOR

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the proposal will have no fiscal impact on their organization.

Officials from the **Department of Transportation (MoDOT)** defer to DOR for the fiscal impact of this proposal.

Oversight notes that B&P and MoDOT have each stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE FUND			
<u>Loss</u> - potential decrease in sales tax revenue from the purchase of new vehicles, boats, trailers, or outboard motors by allowing multiple articles to offset sales tax basis	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
VARIOUS OTHER STATE FUNDS			
<u>Loss</u> - potential decrease in sales tax from the purchase of new vehicles, boats, trailers, or outboard motors by allowing multiple articles to offset sales tax basis	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT TO VARIOUS OTHER STATE FUNDS	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss</u> - cities and counties potential decrease in sales tax from the purchase of new vehicles, boats, trailers, or outboard motors by allowing multiple articles to offset sales tax basis	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses that purchase motor vehicles, boats, trailers or outboard motors and attempt to offset their sales tax liability with multiple transactions could be impacted by this proposal.

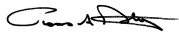
FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to sales and use tax allowances for certain items.

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
Office of Administration - Budget and Planning
Department of Transportation



Ross Strobe
Acting Director
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