

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1121H.02P
 Bill No.: Perfected HCS for HB 394
 Subject: Taxation and Revenue - Sales and Use; Taxation and Revenue - General; Political Subdivisions; Cities, Towns, and Villages; Fire Protection; Law Enforcement Officers and Agencies
 Type: Original
 Date: April 14, 2021

Bill Summary: This proposal would enact provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue*	\$373,548	\$0 to \$28,708	\$0 to \$38,318
Total Estimated Net Effect on General Revenue	\$373,548	\$0 to \$28,708	\$0 to \$38,318

*Represents the potential 1% Department of Revenue collection fee if voters approve the sales tax(es) and HA 3 revenue gain.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
City of Hallsville	\$0	\$0 to \$33,584	\$0 to \$45,674
City of Clinton	\$0	\$0 to \$778,057	\$0 to \$1,058,157
City of Warrensburg	\$0	\$0 to \$1,324,180	\$0 to \$1,791,705
City of Lincoln	\$0	\$0 to \$42,115	\$0 to \$57,276
City of Cole Camp	\$0	\$0 to \$59,255	\$0 to \$80,588
City of Branson West	\$0	\$0 to \$439,145	\$0 to \$597,237
City of Smithville	\$0	\$0 or Up to \$412,193	\$0 or Up to \$566,245
City of Saint Louis	\$0 or up to (\$67,314,390)	\$0 or Less than or more than (\$73,146,294)	\$0 or Less than or more than (\$78,978,198)
City of Kansas City	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
*Local Government	(\$67,314,390)	\$0 or Less than or more than (\$70,493,067)	\$0 or Less than or more than (\$75,378,988)

*Oversight notes the estimated loss could be lesser or greater depending on economic cycle beyond 2023.

FISCAL ANALYSIS

ASSUMPTION

***Oversight** was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Officials from the **Office of Administration – Budget & Planning (B&P)** defer to the local **governments** for the fiscal impact. The Department of Revenue’s retained collection fee (1%) will increase Total State Revenue because DOR will be able to collect its 1% administration fee for handling the collection of the tax.

Officials from the **Department of Revenue (DOR)** assume:

Section 94.900

This proposal in Section 94.900.1 would allow any city of the fourth classification with more than one thousand three hundred fifty but fewer than one thousand five hundred inhabitants and located in any county of the first classification with more than one hundred fifty thousand but fewer than two hundred thousand inhabitants for the implementation of a sales tax for public safety. DOR believes the only City to qualify under this description is the City of Hallsville.

The sales tax may be imposed in an amount of up to one-half of one percent. The tax shall be imposed solely for the purpose of improving the public safety.

DOR shows that the **City of Hallsville** has taxable sales of:

City Of Hallsville

DOR shows that the **City of Hallsville** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	2,120,442	2,206,788	2,374,865	2,281,633	8,983,728
2016	2,209,520	2,277,424	2,389,793	2,287,573	9,164,310
2017	2,283,198	2,479,424	2,423,003	2,283,876	9,469,500
2018	2,305,757	2,424,249	2,156,592	2,249,081	9,135,679
2019	2,274,635	2,275,418	2,337,986	2,149,192	9,037,231
2020	2,063,600	1,973,526			

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Hallsville would collect and the fee retained by DOR as:

Hallsville	1/4 of 1% Tax		1/2 of 1% Tax	
	DOR 1% Fee	Local Collection	DOR 1% Fee	Local Collection
2022	\$221.72	\$21,950.00	\$443.43	\$43,900.00
2023	\$226.15	\$22,389.00	\$452.30	\$44,778.00
2024	\$230.67	\$22,836.78	\$461.35	\$45,673.56

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Hallsville	1/2 of 1% Tax	
	DOR 1% Fee	Local Collection
2022	\$0	\$0
2023	\$339	\$33,584
2024	\$461	\$45,674

Section 94.902

This proposal in Section 94.902.1(10) would allow any city of the third classification with more than nine thousand but fewer than ten thousand inhabitants and located in any county of the third classification with a township form of government and with more than twenty thousand but fewer than twenty-three thousand inhabitants to implement a sales tax for public safety. DOR believes the only City to qualify under this description is the City of Clinton.

The sales tax may be imposed in an amount of up to one-half of one percent. The tax shall be imposed solely for the purpose of improving the public safety.

CITY OF CLINTON

DOR shows that the **City of Clinton** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	40,147,895	44,618,974	44,443,717	44,037,435	173,248,021
2016	41,389,150	45,465,065	45,533,177	44,893,260	177,280,651
2017	40,038,915	47,066,194	45,477,582	43,884,475	176,467,167
2018	40,961,939	47,940,212	46,462,280	46,505,858	181,870,288
2019	41,412,692	48,554,205	48,146,261	47,602,031	185,715,189
2020	46,200,897	55,540,348			101,741,245

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Lincoln would collect and the fee retained by DOR as:

Clinton	1/4 of 1% Tax		1/2 of 1% Tax	
Fiscal Year	DOR 1% Fee	Local Collection	DOR 1% Fee	Local Collection
2022	\$0	\$0	\$0	\$0
2023	\$5,239	\$518,704	\$10,479	\$1,037,409
2024	\$5,344	\$529,078	\$10,688	\$1,058,157

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Clinton	1/2 of 1% Tax	
Fiscal Year	DOR 1% Fee	Clinton Revenues
2022	\$0	\$0
2023	\$7,859	\$778,057
2024	\$10,688	\$1,058,157

CITY OF WARRENSBURG

This proposal in Section 94.902.1(11) would allow any city of the third classification with more than seventeen thousand but fewer than nineteen thousand inhabitants and that is the county seat of any county of the fourth classification with more than forty-eight thousand but fewer than sixty thousand inhabitants to implement a public safety sales tax. DOR believes this would apply to the City of Warrensburg.

DOR shows that the **City of Warrensburg** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	73,525,691	75,778,047	77,850,153	78,204,932	305,358,823
2016	75,656,245	77,000,083	80,140,816	78,668,399	311,465,543
2017	74,974,171	79,546,510	79,546,512	76,665,224	310,732,416
2018	76,813,419	79,880,005	80,489,326	81,141,834	318,324,584
2019	76,577,988	84,062,669	84,790,144	84,187,783	329,618,585
2020	79,785,455	85,632,220	86,887,792		252,305,467

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Warrensburg would collect and the fee retained by DOR as:

Warrensburg	1/4 of 1% Tax		1/2 of 1% Tax	
	DOR 1% Fee	Local Collection	DOR 1% Fee	Local Collection
Fiscal Year				
2022	\$0	\$0	\$0	\$0
2023	\$8,872	\$878,287	\$17,743	\$1,756,573
2024	\$9,049	\$895,852	\$18,098	\$1,791,705

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Warrensburg		
1/2 of 1% Tax		
Fiscal Year	DOR 1% Fee	Local Collection
2022	\$0	\$0
2023	\$13,307	\$1,324,180
2024	\$18,098	\$1,791,705

CITY OF LINCOLN

DOR shows that the **City of Lincoln** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	2,124,060	2,412,496	2,368,178	2,014,074	8,918,808
2016	2,138,130	2,369,529	2,437,892	2,142,464	9,088,015
2017	2,177,513	2,602,875	2,547,296	2,120,049	9,447,734
2018	2,444,106	2,542,249	2,617,362	2,318,717	9,922,434
2019	2,031,857	2,243,606	2,706,418	2,367,247	9,349,128
2020	2,464,802	3,151,201			5,616,003

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Lincoln would collect and the fee retained by DOR as:

Lincoln	1/4 of 1% Tax		1/2 of 1% Tax	
	DOR 1% Fee	Local Collection	DOR 1% Fee	Local Collection
2022	\$0	\$0	\$0	\$0
2023	\$284	\$28,076	\$567	\$56,153
2024	\$289	\$28,638	\$579	\$57,276

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Lincoln	1/2 of 1% Tax	
Fiscal Year	DOR 1% Fee	Lincoln Revenue
2022	\$0	\$0
2023	\$425	\$42,115
2024	\$579	\$57,276

CITY OF COLE CAMP

DOR shows that the **City of Cole Camp** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	3,229,113	3,002,081	3,402,238	3,196,016	12,829,447
2016	3,095,340	3,003,988	3,225,042	3,279,187	12,603,558
2017	3,081,084	2,956,959	3,249,944	3,336,067	12,624,054
2018	3,278,248	3,220,758	3,474,064	4,684,461	14,657,531
2019	3,402,802	3,687,581	3,745,639	3,618,415	14,454,437
2020	3,688,039	3,837,967			7,526,006

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Cole Camp would collect and the fee retained by DOR as:

Cole Camp	1/4 of 1% Tax		1/2 of 1% Tax	
	DOR 1% Fee	Local Collection	DOR 1% Fee	Local Collection
Fiscal Year				
2022	\$0	\$0	\$0	\$0
2023	\$395	\$39,109	\$790	\$78,217
2024	\$403	\$39,891	\$806	\$79,782

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters.

Therefore the impact in FY 2023 would be for 9 months.

Cole Camp	1/2 of 1% Tax	
	Fiscal Year	DOR 1% Fee
2022	\$0	\$0
2023	\$592	\$58,663
2024	\$806	\$79,782

CITY OF BRANSON WEST

This proposal in Section 94.902.1(13) this would allow any city of the fourth classification with more than four hundred fifty but fewer than five hundred inhabitants and located in any county of the third classification without a township form of government and with more than twenty-nine thousand but fewer than thirty-three thousand inhabitants and with a city of the fourth classification with more than four hundred but fewer than four hundred fifty inhabitants as the county seat to implement a sales tax for public safety. DOR believes this would only apply to the City of Branson West.

DOR shows that the **City of Branson West** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	17,894,744	23,976,483	25,866,505	21,668,350	89,406,082
2016	18,901,040	25,156,599	26,716,172	23,132,889	93,906,700
2017	18,850,783	25,742,289	26,723,871	22,779,379	94,096,322
2018	19,229,746	26,277,102	27,300,134	24,081,341	96,888,323
2019	19,672,156	27,420,436	29,729,276	27,350,166	104,172,034
2020	23,914,066	30,472,085			54,386,151

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Branson West would collect and the fee retained by DOR as:

Branson West	1/4 of 1% Tax		1/2 of 1% Tax	
	Fiscal Year	DOR 1% Fee	Local Collection	DOR 1% Fee
2022	\$2,899	\$287,023	\$5,798	\$574,046
2023	\$2,957	\$292,763	\$5,914	\$585,526
2024	\$3,016	\$298,619	\$6,033	\$597,237

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Branson West	1/2 of 1% Tax	
Fiscal Year	DOR 1% Fee	Local Collection
2022	\$0	\$0
2023	\$4,435	\$439,145
2024	\$6,033	\$597,237

Officials from the **DOR** do not anticipate any administrative costs stemming from the proposal.

Officials from the **City of Mansfield** assume the proposal would have a direct fiscal impact on their organization.

Oversight note the proposal does not identify City of Mansfield as one of the jurisdiction which is allowed for increase of tax rate in this proposal. Therefore, Oversight will note zero impact for the City on the fiscal note.

In response to the similar proposal, HCS for HB 1701 (3883-02) 2020, Officials from the **City of Clinton** assumed, based on financial data from FY 18-19, the City would expect to generate annual revenues of \$950,000 based on a one-half percent sales tax.

Additionally, Officials at the **City of Branson West** assumed if the Board of Alderman of the City decide to approve the tax at half a percent and it is passed, the approximate revenue that will be brought in is \$500,000 annually.

Oversight notes while the cities within this proposal could start to generate sale tax revenue beginning October 1, 2022, the reporting will not occur until 1 month later. Therefore, Oversight will range the fiscal impact from \$0 (not approved by voters) the estimates calculated by Oversight for 9 months in FY 22 and reflect a full year of sales tax revenue for FY 23 in this proposal as shown below:

Officials from the **City of Corder, City of Claycomo, City of O’Fallon, and Boone County** each assume the proposal would not have a direct fiscal impact on their respective organization.

Section 94.900 - House Amendment 2. Section City of Smithville Public Safety Sales Tax

Officials from the **Department of Revenue (DOR)** assume this proposal would allow any city of the fourth classification with more than eight thousand but fewer than nine thousand inhabitants and located partially in any county of the first classification with more than two hundred thousand but fewer than two hundred sixty thousand inhabitants and partially in any county of the first classification with more than eighty-three thousand but fewer than ninety-two thousand inhabitants and with a city of the fourth classification with more than four thousand five hundred but fewer than five thousand inhabitants as the county seat to adopt up to one-half of one percent sales tax or the purpose of funding public safety. The Department believes that it would impact the City of Smithville.

DOR shows that the **City of Smithville** has taxable sales of:

CY	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total
2015	18,324,168	21,003,657	20,543,911	18,606,705	78,478,441
2016	18,563,002	21,339,111	21,767,674	19,455,853	81,125,639
2017	18,671,654	22,070,560	21,628,460	19,691,818	82,062,492
2018	19,056,529	22,849,004	22,213,205	20,463,774	84,582,512
2019	19,126,749	24,175,713	23,189,729	22,835,526	89,327,717
2020	25,103,911	33,495,462			58,599,373

Source: <http://dor.mo.gov/publicreports/>

The Department notes this proposal allows up to a one-half of one percent sales tax. For the fiscal impact we will assume the full one-half of one percent sales tax is adopted. However, for informational purposes we are showing how much would be collected if they just chose a quarter of one percent sales tax. Using the taxable sales and a 2% inflation rate in the future, DOR calculated the amount the City of Smithville would collect and the fee retained by DOR as:

Smithville	1/4 of 1% Tax		1/2 of 1% Tax	
	DOR 1% Fee	Local Collection	DOR 1% Fee	Local Collection
Fiscal Year 2022	\$2,721	\$269,407	\$5,443	\$538,815
2023	\$2,776	\$274,796	\$5,551	\$549,591
2024	\$2,831	\$280,291	\$5,662	\$560,583

DOR notes that this proposal would become effective on August 28, 2021 and the first election this issue could be presented to the voters would be the April 6, 2022 election. Therefore this will not have a fiscal impact in FY 2022. This sales tax would become effective on the first day of the second calendar quarter after the director of revenue receives notice of the adoption of the sales tax, which is estimated to be October 1, 2022 (FY 2023) if adopted by the voters. Therefore the impact in FY 2023 would be for 9 months.

Smithville	1/2 of 1% Tax	
Fiscal Year	DOR 1% Fee	Local Collection
2022	\$0	\$0
2023	\$4,163	\$412,193
2024	\$5,662	\$560,583

Administrative impact

It is assumed any potential impact would be absorbed by the Department.

Section 92.111 House Amendment 3 & House Amendment 1 to HA3

Officials from the **Department of Revenue (DOR)** assume this proposal would prohibit the assessment of a city’s earnings tax on nonresidents of the city who are performing work through telecommuting or remote. Currently, certain nonresidents can be assessed the city earnings tax depending on their business activities as defined in statute. This prohibition would impact the City of Kansas City and the St. Louis City because they have an earnings tax. This would not impact the Department as we do not participate in the collection of the earnings tax for these cities.

In response to a similar proposal, [HB 688](#), officials from the **Office of Administration – Budget & Planning (B&P)** assumed this proposal would exempt nonresident workers of Kansas City and St. Louis City from their 1% earnings tax, if the nonresidents worked remotely.

B&P noted that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee worked remotely. Therefore, this proposal could reduce Kansas City earnings tax collections by exempting all work related income, not just days that the nonresident employee worked remotely.

B&P noted that St. Louis City is not exempting nonresident income for days that the nonresident worked remotely.

For the purpose of this fiscal note, B&P assumed that the majority of nonresident employees would qualify for this exemption during the 2020 tax year due to local and statewide closure orders related to COVID-19. B&P is unable to determine whether or the amount of nonresident employees that could qualify for this exemption beyond tax year 2020.

Based on data published by the U.S. Census Bureau 57.1% of St. Louis City residents are employed within the city. Based on data previously published by MERIC, approximately 5.8% of workers in St. Louis reside in Illinois. Therefore, B&P estimates that approximately 37.1% of St. Louis City workers reside within Missouri, but outside of St. Louis City.

Using data published by St. Louis City¹, B&P determined that earnings tax collections for FY20 was \$156,910,000. Therefore, B&P estimates that of the \$156,910,000, approximately \$89,595,610 comes from St. Louis City residents who work within the city, \$9,100,780 comes from Illinois residents, and \$58,213,610 comes from Missouri residents outside of St. Louis City. B&P notes that city residents would still be liable for the tax because of their residency status. Therefore, B&P estimates that this provision could reduce St. Louis City earnings tax by \$67,314,390 (\$156,910,000 total earning tax - \$89,595,610 St. Louis City residents).

B&P noted that some taxpayers claim the amount of earnings tax paid to St. Louis City in their itemized deductions. Based on information provided by DOR, B&P determined that 12% of Missouri taxpayers itemize their deductions. B&P further notes that residents outside of Missouri are not liable for Missouri income tax on the days where they worked remotely.

Therefore, B&P estimated that \$6,917,558 (\$58,213,610 MO residents x 12%) in deductions would no longer be claimed on Missouri's individual income tax.

However, deductions do not impact revenues on a dollar for dollar bases, but rather in proportion to the top tax rate applied. B&P notes that the top income tax rate for tax year 2020 is 5.4%. Therefore, B&P estimates that this provision could increase state tax collections by \$373,548 for tax year 2020. B&P notes that this provision would not become effective until August 28, 2021, which is after tax year 2020 income tax returns are filed. B&P also notes that nonresident worker have up to one year to apply for an earnings tax refund from St. Louis City.

Therefore, B&P assumes that this provision may increase TSR and GR by \$373,548 (5.4% x \$58,213,610) in FY22. This provision may reduce St. Louis City earnings tax revenue by \$67,314,390 in FY22. This provision may have an unknown impact in future tax years.

Therefore, B&P assumes that this provision may increase TSR and GR by \$373,548 in FY22. This provision may reduce St. Louis City earnings tax revenue by \$67,314,390 in FY22. This provision may have an unknown impact in future tax years.

Oversight notes the 12% itemized deduction percentage used by B&P is a rounded percentage. B&P stated to Oversight that the percentage is closer to 11.88% in the calculation of their numbers above. **Oversight** does not have information to the contrary and therefore, **Oversight** will reflect the estimates for the **City of Saint Louis** as provided by the B&P.

In response to the similar proposal, HB 688, officials from the **St. Louis City** note the Earnings Tax is the City's single largest source of revenue amounting to over a third of the general fund budget. Total receipts in FY2020 exceeded \$175M. The proposed legislation would eliminate the Earnings Tax on nonresidents of the City beginning December 31, 2021. While there is

¹ <https://www.stlouis-mo.gov/government/departments/comptroller/documents/current-comprehensive-annual-financial-report.cfm>, FY20 CAFR – Table 9, page 213

no definitive total of the portion of the Earnings Tax this would represent, a fair estimate would be that approximately half or more of these receipts would be jeopardized by the proposed legislation. A loss of revenue of this magnitude would be a devastating blow to the City's credit and fiscal condition, and would seriously impair the City's ability to provide basic City services. The following illustration shows the order of magnitude:

1/2 Earnings Tax receipts are:

- Over half the total of the FY20 general fund expenditure of the Police Department at \$167.5M

Or:

- More than the entire Fire Department budget at \$64.3M

Or about equivalent to the costs of these services:

- Corrections and Juvenile Detention: \$46.6M
- Forestry Division trimming, weeding, and debris: \$7.9M
- Park Maintenance: \$8.5M
- Street Maintenance and Repair: \$7.1M
- Street and Alley Lighting: \$9.6M
- Building Code Compliance and Permits: \$7.9M

The potential loss of revenue in the range of \$90M annually would jeopardize the City's ability to maintain basic City services.

In addition to General Revenue, there would be a similar negative impact on all TIF developments which utilized a portion of the Earnings tax receipts in its financings, an amount which totaled \$5.5M in FY20.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P for the City of St. Louis.

In response to the similar proposal, HB 688, officials from the **City of Kansas City** assumed the proposal may not be imposed on nonresidents who telecommute. While this conforms to the City's current allocation, it could result in a negative impact in the future should the City later determine to conform to a more expansive interpretation of the earnings tax statute.

Oversight notes according to Kansas City's 2020 Annual CAFR Report, the following is a ten year trend of approximately how much was collected in Earnings Taxes for Kansas City:

Year	Total Revenue Base	Gross Earnings and Profits Tax	Less Redirection of Economic Activity to TIF Special Allocation Fund	Net Collection of Earnings Taxes
2011	19,627,100,000	196,271,000	4,597,000	191,674,000
2012	20,672,700,000	206,727,000	23,760,000	182,967,000
2013	21,325,400,000	213,254,000	15,079,000	198,175,000
2014	21,946,600,000	219,466,000	18,283,000	201,183,000
2015	23,367,900,000	233,679,000	17,649,000	216,030,000
2016	23,689,100,000	236,891,000	13,067,000	223,824,000
2017	24,415,200,000	244,152,000	13,311,000	230,841,000
2018	25,891,400,000	258,914,000	17,109,000	241,805,000
2019	27,805,600,000	278,056,000	15,263,000	262,793,000
2020	25,838,200,000	258,382,000	14,468,000	243,914,000

Source: Kansas City 2020 CAFR Annual Report pgs 376 and 377

Oversight notes the City of Kansas City state the proposal conforms to their current allocation and B&P states that currently Kansas City is already exempting nonresident remote workers from the earnings tax for the days that nonresident employee worked remotely. Therefore, Oversight will reflect a \$0 (the city will not take more extensive take on the current statute) or (Unknown) (the city will take more expensive take on statute and exclude more cost to Kansas City).

Section 92.117 Earnings Tax on Minimum Wage Workers (HA 4)

Officials from the **Department of Revenue (DOR)** note this would allow the City of Kansas City and the St. Louis City to vote to exempt their minimum wage workers from paying the earnings tax. This would not impact the Department as we do not participate in the collection of the earnings tax for these cities.

Oversight assumption:

Oversight assumes Saint Louis City is the only one entity fitting the description within the amendment. An article published by National Employment Law Project (NELP), named “A \$12 Minimum Wage for All Missourians: More than 2 in 3 Workers Who Will Benefit From Proposition B Live Outside Missouri Two Major Cities”, argues that such a raise in minimum wage would affect 46,730 workers in the City of St. Louis. (source: <https://s27147.pcdn.co/wp-content/uploads/12-MO-Rural-And-County-Impact.pdf>).

Taking the number of imacted workers form this research, Oversight calculated the average annual salary and the annual fiscal impact on City of Saint Louis as follows:

People affected by the law	46,730		
Calculation	2021	2022	2023
Minimum Wage Missouri	10.3	11.15	12.00
40 Hrs.	\$412	\$446	\$480
Annual Earnings per person	\$21,424	\$23,192	\$24,960
Multiply Annual wage x 46730	\$1,001,143,520	\$1,083,762,160	\$1,166,380,800
Total estimated fiscal impact	\$10,011,435	\$10,837,622	\$11,663,808

The amendment states this law would be implemented in January 1st of the calendar year immediately following the approved question by the voters. The vote would take a place in first available General Municipal Election. That is April of 2022. Therefore, this law would take effect no earlier than January 1st of 2023. (6 Mo in FY 2023)

Therefore, **Oversight** will note a range of \$0 (not approved by voters) to lesser than (\$5,831,904) (*assuming that all workers worked at max of 40 hrs.) for FY 2023, or lesser than or more than (dependent on economic cycle beyond 2023) (\$11,663,808) thereafter annually on the fiscal note.

Oversight notes that the projected loss to the City could be higher or lower than estimated by the Oversight depending on the economic cycle in FY 2023 and beyond. Additionally, there is inherent indirect impact where the minimum wage earner is now possibly gaining more income, thus possibly paying higher taxes to the State.

Officials from **Missouri Department of Conservation** and **Missouri Department of Transportation** both assume the proposal would not have a direct fiscal impact on their respective organization.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other agencies, cities, counties, schools, and colleges were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
GENERAL REVENUE FUND			
<u>Additional Revenue - DOR 1% DOR Collection fee from all Local Political Subdivisions for new sales taxes allowed in the proposal</u>	<u>\$0</u>	<u>\$0 to \$26,957</u>	<u>\$0 to \$36,665</u>
<u>Revenue Gain – City of St. Louis (calculation of deductions relating to earnings tax p. 12-14)</u>	<u>Up to \$373,548</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>Up to \$373,548</u>	<u>\$0 or Greater than \$26,957</u>	<u>\$0 or Greater than \$36,665</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
CITY OF HALLSVILLE			
<u>Additional Revenues - additional sales tax for Public Safety - '94.900 (p.3-4)</u>	\$0	\$0 to \$33,923	\$0 to \$46,135
<u>Loss - 1% collection fee kept by DOR</u>	\$0	\$0 to (\$339)	\$0 to (\$461)
ESTIMATED NET EFFECT ON CITY OF HALLSVILLE	<u>\$0</u>	<u>\$0 to \$33,584</u>	<u>\$0 to \$45,674</u>
CITY OF CLINTON			
<u>Additional Revenues - additional sales tax for Public Safety - '94.902 (p.5)</u>	\$0	\$0 to \$785,916	\$0 to \$1,068,845
<u>Loss - 1% collection fee kept by DOR</u>	\$0	\$0 to (\$7,859)	\$0 to (\$10,688)
ESTIMATED NET EFFECT ON CITY OF CLINTON	<u>\$0</u>	<u>\$0 to \$778,057</u>	<u>\$0 to \$1,058,157</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
CITY OF WARRENSBURG			
<u>Additional Revenues</u> - additional sales tax for Public Safety - '94.900 (p. 6)	\$0	\$0 to \$1,324,180	\$0 to \$1,809,803
<u>Loss</u> - 1% collection fee kept by DOR	\$0	\$0 to (\$13,307)	\$0 to (\$18,089)
ESTIMATED NET EFFECT ON CITY OF WARRENSBURG	<u>\$0</u>	<u>\$0 to \$1,324,180</u>	<u>\$0 to \$1,791,705</u>
CITY OF LINCOLN			
<u>Additional Revenues</u> - additional sales tax for Public Safety - '94.902 (p.7)	\$0	\$0 to \$42,540	\$0 to \$42,115
<u>Loss</u> - 1% collection fee kept by DOR	\$0	(\$425)	(\$579)
ESTIMATED NET EFFECT ON CITY OF LINCOLN	<u>\$0</u>	<u>\$0 to \$42,115</u>	<u>\$0 to \$57,276</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
CITY OF SMITHVILLE			
Revenue Gain – HA 2 Section 94.900. Sales Tax (p. 10-11)	\$0	\$0 or Up to \$416,356	\$0 or Up to \$566,425
Cost – DOR 1% Collection Fee (p.)	<u>\$0</u>	<u>\$0 or Up to (\$4,163)</u>	<u>\$0 or Up to (\$5,662)</u>
NET EFFECT ON CITY OF SMITHVILLE	<u>\$0</u>	<u>\$0 or Up to \$412,193</u>	<u>\$0 or Up to \$566,245</u>
CITY OF SAINT LOUIS			
Revenue loss – HA 3 potential loss in revenue from eliminating the Earnings Tax on nonresidents of St. Louis City who telecommute or work remotely (p. 12-14)	\$0 or up to (\$67,314,390)	\$0 or up to (\$67,314,390)	\$0 or up to (\$67,314,390)
Revenue loss - HA 4 earned income tax exclusion (p.15-16)	<u>\$0</u>	<u>\$0 or Lesser or more than (\$5,831,904)</u>	<u>\$0 or Lesser or more than (\$11,663,808)</u>
ESTIMATED NET EFFECT ON CITY OF SAINT LOUIS	<u>\$0 or up to (\$67,314,390)</u>	<u>\$0 or Lesser or more than (\$73,146,294)</u>	<u>\$0 or Lesser or more than (\$78,978,198)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022	FY 2023 (9 Mo.)	FY 2024
CITY OF KANSAS CITY			
<u>Revenue loss</u> – potential loss in revenue from eliminating the Earnings Tax on nonresidents of Kansas City who telecommute or work remotely	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
NET ESTIMATED EFFECT ON CITY OF KANSAS CITY	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL IMPACT – Small Business

Small businesses in Hallsville, Clinton, Warrensburg, Lincoln, Cole Camp and Branson West, Smithville, City of Saint Louis, and City of Kansas City will be impacted by collecting (and/or paying) a new sales tax.

FISCAL DESCRIPTION

This bill adds any city of the third classification with more than 9,000 but fewer than 10,000 inhabitants and located in any county of the third classification with a township form of government and with more than 20,000 but fewer than 23,000 inhabitants and any city of the fourth classification with more than 1,050 but fewer than 1,200 inhabitants and located in any county of the third classification without a township form of government and with more than 18,000 but fewer than 20,000 and with a city of the fourth classification with more than 2,100 but fewer than 2,400 inhabitants as the county seat to the list of cities authorized to impose, upon voter approval, a sales tax in an amount of up to one-half of one percent for public safety purposes, including expenditures on equipment, city employee salaries and benefits, and facilities for police, fire and emergency medical providers.

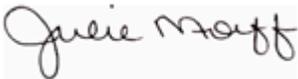
Currently, the only additional cities described are cities describe are City of Clinton, Lincoln, Cole Camp, Warrensburg, Hallsville, Branson West, and City of Smithville.

The proposal also contains provisions which would affect collections of city earnings taxes in the City of Kansas City and the City of St. Louis

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
Missouri Department of Conservation
Missouri Department of Transportation
Office of Administration – Budget & Planning
City of Claycomo
City of Corder
City of O’Fallon
City of Mansfield
County of Boone
City of St. Louis



Julie Morff
Director
April 14, 2021



Ross Strobe
Assistant Director
April 14, 2021