

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0386-09
Bill No.: SCS for HCS for HB 64
Subject: Business and Commerce; Revenue Dept.; Taxation and Revenue – General;
Taxation and Revenue – Sales and Use
Type: Original
Date: April 29, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$19,750) to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$19,750) to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Various State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Office of Administration – Division of Budget and Planning (BAP)** assume this proposal would result in a reduction in General Revenue, but cannot provide a specific estimate. BAP assume no fiscal impact to its agency.

Officials with the **Department of Revenue (DOR)** assume this proposal would create a permanent state sales tax holiday by removing the expiration date. DOR assumes that notification letters along with long form sales tax returns would have to be mailed to 50,000 taxpayers at a cost of \$19,750 (\$1,250 for letters and \$18,500 for postage).

DOR officials stated that they could not estimate the amount of decrease in state or local revenues.

Officials with **Greene County and Taney County** assume this proposal would have no fiscal impact on their counties, assume they retain the right to “opt out” of the local sales tax portion of the holiday.

Officials with **Jasper County** assume significant negative fiscal impact in FY06 for counties that participated in the calendar year 2004 sales tax holiday, but the option to “opt out” in FY07

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ASSUMPTION (continued)

would negate fiscal impact in that year and in subsequent fiscal years.

Officials with the **City of Columbia and City of West Plains**—in response to a previous version of this proposal (0386-03/Perfecting HCS for HB 64)—assumed the proposal would have no fiscal impact on their cities in FY06, and none in FY 07 and subsequent years, assuming the cities approve ordinances to “opt out” of the local sales tax portion of the holiday.

Officials with the **City of Springfield, Laclede County, and St. Louis County**—in response to a previous version of this proposal (0386-03/HCS for HB 64 without amendments)—assumed the proposal would have significant negative fiscal impact in lieu of lost sales tax revenues.

Oversight assumes this proposal, as perfected, would permit cities and counties that opted out of August 2004 holiday to remain exempted from it, and would provide them the option of opting out, by ordinance, of sales tax holidays in August 2005 and in subsequent years.

In the absence of estimated state sales tax loss data, **Oversight** reverts back to BAP data provided for a similar previous fiscal note (FN #0345-12 from the 2003 regular session). In it, **Oversight** used BAP data to assume an annual sales tax loss of \$2.5 million per year and \$875,000 to cities and counties. Applying a 2% growth rate to such estimates results in a sales tax loss of \$2.55 million in FY06, \$2.6 million in FY07, and \$2.65 million in FY08 to General Revenue and various state funds.

Oversight assumes this proposal mandates that any local government that passed an ordinance to “opt out” of the 2004 sales tax holiday would remain exempt from it in August 2005 (FY06), unless such an entity passes an ordinance to participate. **Oversight** further assumes that all political subdivisions would be required by this proposal to participate in the 2006 sales tax holiday (FY07), unless such a political subdivision approves an ordinance to allow the sales tax holiday not to apply to their local sales tax.

For purposes of this fiscal note, **Oversight** assumes that local political subdivisions that participated in the 2004 sales tax holiday would experience a loss of sales tax revenue in FY06 for three days on the sales of items exempted by Section 144.049, RSMo. **Oversight** cannot determine the number of political subdivisions that will enact ordinances to “opt out” of subsequent sales tax holidays. Therefore, the number of localities and amount of sales tax revenue lost in those years as a result of this proposal cannot be determined.

Oversight acknowledges that local political subdivisions could see an increase in sales tax

ASSUMPTION (continued)

revenues from non-exempt items as a result of this proposal due to increased retail activity spurred on by the holiday. Such an increase in sales of non-exempt items could potentially offset the sales tax loss created by the exemption contained in this proposal. However, **Oversight** lacks sufficient conclusive data to make a credible estimate.

This proposal could decrease Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2006	FY 2007	FY 2008
GENERAL REVENUE			
<u>Loss</u> – Sales Tax Revenues			
Sales Tax Holiday	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Cost</u> – DOR			
Notification Letters and Postage	<u>(\$19,750)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>(\$19,750) to (Unknown)</u>	<u>\$0 to (\$Unknown)</u>	<u>\$0 to (Unknown)</u>
VARIOUS STATE FUNDS			
<u>Loss</u> – Sales Tax Revenues			
Sales Tax Holiday	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006	FY 2007	FY 2008
<u>Loss</u> – Cities and Counties			
Sales Tax Revenues	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT - Small Business

Small retailers could see an increase in sales during sales tax holiday periods as a result of this proposal.

DESCRIPTION

This legislation extends the current state and local sales and use tax holiday for certain clothing, personal computers, and school supplies purchased for personal use during a three-day period each August. This legislation alters the dollar amount for qualifying computer software purchases from \$200 to \$350 and for personal computers from \$2,000 to \$3,500. The proposal does not apply to any retailer when less than 2% of the retailers's merchandise offered for sale qualifies for the sales tax holiday.

For the 2005 sales tax holiday, the ability for local governments to opt out of the holiday is limited to those that opted out in 2004. However, any political subdivision may enact an ordinance to allow the 2005 sales tax holiday to apply to its local sales taxes. The political subdivision must notify the department of revenue not less than 45 calendar days prior to the beginning date of the sales tax holiday of any ordinance or order opting out or rescinding an order to opt out.

After the 2005 sales tax holiday, any political subdivision may adopt an ordinance or order to opt out of the holiday. After opting out, the subdivision may rescind the ordinance or order. Again, the political subdivision must notify the department of revenue not less than 45 calendar days prior to the beginning date of the sales tax holiday of any ordinance or order opting out or rescinding an order to opt out.

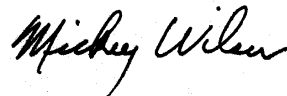
The act contains an emergency clause.

DESCRIPTION (continued)

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
 Division of Budget and Planning
City of Columbia
City of Springfield
City of West Plains
Greene County
Jasper County
Laclede County
St. Louis County
Taney County



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Director
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