

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1176-03
Bill No.: HCS for HB 448
Subject: Motor Vehicles; Revenue Dept.; Taxation and Revenue - Sales and Use
Type: Original
Date: March 1, 2007

Bill Summary: Would provide a tax credit equal to the amount of sales tax paid on motor vehicles assembled and sold in this state.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	(\$4,383,540 to Unknown)	(\$8,736,773 to Unknown)	(\$8,737,741 to Unknown)
Total Estimated Net Effect on General Revenue Fund *	(\$4,383,540 to Unknown)	(\$8,736,773 to Unknown)	(\$8,737,741 to Unknown)

* Unknown expected to exceed \$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 2008	FY 2009	FY 2010
Conservation Commission *	(Unknown)	(Unknown)	(Unknown)
Park and Soils *	(Unknown)	(Unknown)	(Unknown)
School District Trust *	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds *	(Unknown)	(Unknown)	(Unknown)

* Unknown expected to exceed \$100,000.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	1.0	1.0	1.0
Total Estimated Net Effect on FTE	1.0	1.0	1.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government *	(Unknown)	(Unknown)	(Unknown)

* Unknown expected to exceed \$100,000.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Economic Development** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Conservation (MDC)** assume the proposal would result in a negative fiscal impact on MDC funds. MDC officials stated they were unable to provide the estimated amount and will rely on the Department of Revenue for the fiscal impact of the proposal.

Officials from the **Department of Natural Resources (DNR)** assumed a previous version of this proposal would not have a significant fiscal impact on their organization.

Officials from **St. Louis County (SLC)** assumed the proposal would cause an unknown loss of funds to their organization.

ASSUMPTION (continued)

Officials from the **City of Centralia** assumed the proposal would cause an unknown reduction in sales tax revenues to their organization.

Officials from the **City of Kansas City** estimated that a previous version of the proposal would lead to a reduction of sales tax revenues of approximately \$135,000 per year.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** stated they were not able to prepare an estimate of lost revenue which would result if a previous version of this proposal was enacted.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would provide a refundable tax credit on the sales tax paid for new motor vehicles assembled and sold in Missouri. In addition, it would add a presumption that materials used in the primary manufacture of motor vehicles contain 25% recovered materials, essentially exempting electrical energy used in motor vehicle manufacture from sales tax. The proposal would have no impact on Office of Administration/Budget and Planning, but would result in a reduction in General Revenue.

Data from the US Department of Energy, Energy Information Administration (EIA) indicates that in 2004, revenues from sales of electricity to the industrial sector amounted to \$661 million. This translates to sales of \$621 million, assuming a sales tax rate of 6.45 percent. State sales taxes from sales of electricity to the industrial sector would therefore be in the region of \$26 million.

Bureau of Economic Analysis (BEA) data indicates that manufacturing accounts for 70 percent of the industrial sector activity, and motor vehicle manufacturing accounts for approximately 12 percent of total manufacturing. Loss of state sales and use tax from electricity usage in motor vehicle manufacturing would be approximately \$2 million, assuming similar electricity usage in 2007.

BAP defers to the Department of Revenue for an estimate of the tax credit for motor vehicle state sales taxes paid. BAP notes that the Missouri Constitution dedicates proceeds from the state sales tax on all motor vehicles for highway and transportation use. Any tax credits issued would therefore result in additional losses to general revenue.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) responded as follows:

Qualifying Vehicle Tax Credit

DOR assumes this proposal would create a new tax credit equal to the amount of state sales tax the taxpayer paid for the purchase of a qualifying motor vehicle, beginning on or after January 1, 2008. A qualifying motor vehicle would have been assembled and sold in this state after January 1, 2008. The credit would be refundable, but could not be transferred, sold, or assigned. Local sales tax on the purchase of new motor vehicles would still apply. DOR would administer the legislation.

The DOR General Registration System indicates there were 11,979 new vehicles that were assembled in Missouri and sold by Missouri dealers during FY'06, accounting for \$8,704,525 in state sales tax. In addition, there were 12,283 new ATV's sold by Missouri dealers accounting for \$2,352,691 in state sales tax. Information provided by DOR indicated that no ATV's were assembled in Missouri.

Oversight assumes that no ATV's are assembled in Missouri and that none would qualify for the tax credit. Oversight has used the DOR estimate of revenue reductions from motor vehicles as the fiscal impact for that provision. Oversight assumes that sales of new motor vehicles manufactured in Missouri would be relatively stable over the date scope of this fiscal note. The fiscal impact of this proposal could increase, should sales of such vehicles markedly increase as result of this act; conversely, it could decrease, should one or more automakers cease manufacturing in Missouri. One-half year's fiscal impact would be expected for FY 2008 since vehicles purchased on or after January 1, 2008 would qualify.

Presumption of Recovered Materials

DOR officials stated that the proposal would also change Section 144.030, to indicate, "there shall be a rebuttable presumption that the raw materials used in the primary manufacture of automobiles contain at least twenty five percent recovered materials". DOR did not provide an estimate of the impact on state revenues.

Oversight assumes this proposal would result in an unknown negative fiscal impact on the state's General Revenue Fund and other state funds which receive sales tax revenues, and on local governments. The primary impact of these provisions would be on local governments where there is motor vehicle manufacturing.

ASSUMPTION (continued)

Administrative Impact

DOR assumes the new tax credit provision to be administered by DOR would result in additional workload. Personal Tax would require 1 Tax Processing Technician I for every 4,000 credits claimed.

Information Technology ITSD/DOR assumes the IT portion of this request could be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. ITSD/DOR estimates that this legislation could be implemented utilizing 2 existing CIT III for 2 months, 1 CIT III for 1 month, and an additional 1 CIT I for 1 month at a cost of \$25,476.

DOR provided an estimated cost to implement this proposal including 1.0 FTE Tax Collections Tech I and related fringe benefits, equipment, and expenses totaling \$37,623 for FY 2008, \$39,742 for FY 2009, and \$40,935 for FY 2010.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional staff to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. In addition, Oversight has reduced certain equipment and expense items in accordance with Office of Administration budget guidelines. Oversight assumes that the relatively small number of additional staff can be located in existing office space.

This proposal could decrease Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	(\$17,820)	(\$22,026)	(\$22,686)
Fringe Benefits	(\$7,851)	(\$9,704)	(\$9,996)
Expense and Equipment	<u>(\$5,607)</u>	<u>(\$518)</u>	<u>(\$534)</u>
<u>Total Costs - DOR</u>	<u>(\$31,278)</u>	<u>(\$32,248)</u>	<u>(\$33,216)</u>
<u>Loss - Income Tax</u>			
Qualifying vehicle tax credit	<u>(\$4,352,262)</u>	<u>(\$8,704,525)</u>	<u>(\$8,704,525)</u>
<u>Loss - Sales tax</u>			
Exemption for electricity used in manufacturing * _____	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *	<u>(\$4,383,540 to Unknown)</u>	<u>(\$8,736,773 to Unknown)</u>	<u>(\$8,737,741 to Unknown)</u>
* Unknown expected to exceed \$100,000.			
Estimated Net FTE Change for General Revenue Fund	1.0 FTE	1.0 FTE	1.0 FTE
CONSERVATION COMMISSION FUND			
<u>Loss - Sales tax</u>			
Exemption for electricity used in manufacturing *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
* Unknown expected to exceed \$100,000.			

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
PARKS AND SOILS FUND			
<u>Loss - Sales tax</u>			
Exemption for electricity used in manufacturing *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS FUND *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
* Unknown expected to exceed \$100,000.			
SCHOOL DISTRICT TRUST FUND			
<u>Loss - Sales tax</u>			
Exemption for electricity used in manufacturing *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
* Unknown expected to exceed \$100,000.			
<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL GOVERNMENTS			
<u>Loss - Sales tax</u>			
Exemption for electricity used in manufacturing *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
* Unknown expected to exceed \$100,000.			

FISCAL IMPACT - Small Business

This proposal would have a fiscal impact to small businesses which are involved in manufacturing or vehicle sales.

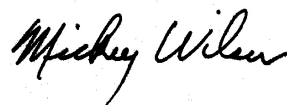
FISCAL DESCRIPTION

This proposal would provide a tax credit for sales tax paid on motor vehicles assembled and sold in this state and would change the laws regarding the exemption from sales and use tax for electricity used in manufacturing.

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

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Economic Development
Department of Natural Resources
Department of Revenue
St. Louis County
City of Centralia
City of Kansas City
University of Missouri
 Economic and Policy Analysis Research Center



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