

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4339-01
Bill No.: HB 2190
Subject: Conservation Dept., Education, Elementary and Secondary; Natural Resources
Dept.; Revenue Dept.; Taxation and Revenue - Sales and Use
Type: Original
Date: March 3, 2008

Bill Summary: Would phase out the sales and use tax on food over a six-year period and replace those revenues with a sales tax on sales of liquor.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(More than \$113,050)	(More than \$100,000)	(More than \$100,000)
Total Estimated Net Effect on General Revenue Fund	(More than \$113,050)	(More than \$100,000)	(More than \$100,000)

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Conservation Commission *	\$0	\$0	\$0
Parks, and Soils and Water *	\$0	\$0	\$0
School District Trust *	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Net of offsetting revenue reductions and increases.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	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 2009	FY 2010	FY 2011
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Conservation** (MDC) assume this proposal would phase out the sales and use tax on food over a six-year period and replace those revenues with a tax on sales of liquor. The current sales of food items in the state, which this proposed legislation exempts from sales tax, are approximately \$7.5 billion. Since this legislation would eliminate MDC's one-eighth of one percent sales tax on that amount, the estimated fiscal impact on MDC funds would be \$9.375 million annually.

Oversight assumes that this proposal would be implemented to replace revenue losses to the Department of Conservation.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would appear to phase out the tax levied on all retail sales of food. According to the description of purpose of draft, those phased-out revenues would be replaced with a sales tax on sales of liquor. Based on the description, the proposal appears to be neutral in terms of state revenue. However, as written the proposal appears to create a windfall for the school district trust fund. Each of the subsections would enact a separate charge to replace the amount of revenue lost as a result of the reduction in the percentage of tax imposed on food. The result would be that the lost revenue will be replace three times for a total of (\$145,648,050 x 3) \$436,944,150.

Oversight assumes the proposal would be implemented to provide total replacement revenue equal to the total revenue lost each year.

ASSUMPTION (continued)

Officials from the **Department of Public Safety, Division of Alcohol and Tobacco Control**(ATC) assumed this proposal would impose a tax on retail sales of alcohol beverages and ATC would be responsible for collecting this tax. In order for ATC to collect these taxes, we would have to have 12- 20 additional people.

Oversight will assume a cost in excess of \$100,000 per year to ATC for additional staff for this proposal. Oversight is unable to estimate the actual number of staff that would be required.

Officials from the **Department of Natural Resources, Linn State Technical College**, and the **Metropolitan Community Colleges** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning** (BAP assume there would be no added cost to their organization as a result of this proposal.

The proposal would eliminate food for home consumption from the sales tax base by calendar year 2014, and provides for a phase-out of Proposition C revenues over a six-year period. BAP projects total Proposition C revenues in Calendar Year 2009 to be \$800 million. Data from the United States Bureau of Economic Analysis (BEA) suggests about 22.2% of these revenues stem from food purchases for home consumption. Therefore, \$177.5 million may be exempted, but under the phased-in schedule, the lost revenue would be \$29.5 million. Revenue losses increase each year by inflation (estimated at 4%) and the phased-in schedule. The impact in FY09 would be for half a year, since the phase-in is based on calendar years.

The proposal would create a liquor tax to replace the lost revenues. BAP projects \$27 million in liquor taxes would be collected in FY09. Therefore, BAP projects the liquor tax would have to be doubled in the first year, and increased in a like fashion until the sixth year, to replace education revenues. BAP notes that, beginning in calendar year 2014, the sales tax on food for home consumption can no longer be collected for Conservation or Natural Resources. There is no provision to replace the reduced revenues therefore, this proposal would have significant budgetary impacts on those agencies. BAP notes that the new proposal only to the state tax on retail sales of food in that chapter. BAP assumes that the sales taxes for other political subdivisions would still apply. Therefore, no impact on local revenues is projected.

Oversight will use the BAP assumption as to local sales and use taxes.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would phase out the tax on food and make up the difference by establishing an additional tax on liquor. The proposal would end current food sales tax provisions on December 31, 2008. Beginning January 1, 2009, through December 31, 2013, the tax on retail sales of food would be reduced by an equal percentage annually until no tax is imposed on retail sales of food under this chapter. Beginning January 1, 2014 retail sales of food shall be exempt from the sales and use tax.

The sales tax that was designated for conservation, soil and water, in the food tax rate, was not recomputed into the tax on liquor; therefore, this legislation would essentially reduce revenues to those entities.

This proposal would require notification to Missouri taxpayers who currently collect and remit food tax, and MITS system changes would be required annually, through 2014. Taxation anticipates mailing approximately 30,000 taxpayers to notify them of the food tax rate reduction. This would create an annual cost of \$13,050, through 2014, when the food tax is completely phased out. $(30,000 @ \$0.025 = \$750 + 30,000 @ \$0.41 = \$12,300)$

DOR provided an estimate of the IT cost to implement the proposal. The Office of Administration, Information Technology Services Division (ITSD/DOR) estimates the IT portion could be implemented utilizing three existing CIT III for three months for modifications to MITS at a total cost of \$37,674. ITSD/DOR assumes this proposal could be implemented with existing resources, however; if priorities shift, additional FTE/overtime would be needed.

Oversight assumes that this proposal would be implemented to replace revenue losses to the Department of Conservation and the Department of Natural Resources. Oversight assumes the the Department of Revenue could manage the increased collections resulting from the additional taxes with existing staff. If unanticipated costs are incurred or if multiple provisions are enacted resulting in additional workload, resources could be requested through the budget process.

Oversight will indicate an Unknown reduction in sales tax revenue in each year of the period covered by this fiscal note with an offsetting increase in alcohol tax revenue for the Conservation Commission Fund, the Parks, and Soil and Water Fund, and the School District Trust Fund. Since the proposal makes the changes on a calendar year basis, the impact would be for six months of FY 2009, with staggered rate changes for the sales tax reduction and replacement tax over the remaining term covered by the proposal.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Cost - Department of Revenue</u>			
Notices and postage costs	<u>(\$13,050)</u>	<u>\$0</u>	<u>\$0</u>
<u>Cost - Department of Public Safety</u>			
Staff, equipment, and expenditures	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(More than \$113,050)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue increase - alcohol tax</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Revenue reduction - Sales tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
PARKS, AND SOIL AND WATER FUND			
<u>Revenue increase - alcohol tax</u>	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Revenue reduction - Sales tax</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
SCHOOL DISTRICT TRUST FUND			
<u>Revenue increase</u> - alcohol tax	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Revenue reduction</u> - Sales tax	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2009 (10 Mo.)	 FY 2010	 FY 2011
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact to small businesses in the liquor industry and in retail food sales.

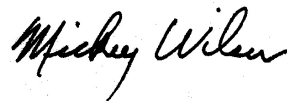
FISCAL DESCRIPTION

This proposal would phase out the sales and use tax on food over a six-year period and replace those revenues with a sales tax on sales of liquor.

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 Administration
 Division of Budget and Planning
Department of Conservation
Department of Elementary and secondary Education
Department of Revenue
Department of Natural Resources
Department of Public Safety
 Division of Alcohol and Tobacco Control
The Metropolitan Community Colleges
Linn State Technical College



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