

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4496-01  
Bill No.: HB 2112  
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income  
Type: Original  
Date: March 4, 2008

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Bill Summary: Would direct the Department of Revenue to establish methods for replacing the state income tax with a state sales tax.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(More than \$100,000)	Unknown to (Unknown)	Unknown to (Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(More than \$100,000)</b>	<b>Unknown to (Unknown)</b>	<b>Unknown to (Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☐ 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
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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## **FISCAL ANALYSIS**

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### ASSUMPTION

Officials from the **Department of Economic Development** (DED) assume this proposal would have no fiscal impact on their organization. DED officials stated that if the proposal was implemented, the income tax in Missouri would be eliminated for businesses and individuals as of January 1, 2010 and would be replaced with a sales tax plan developed by the Department of Revenue.

Officials from the **Office of Administration, Administrative Hearing Commission** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Revenue** (DOR) assume this proposal would replace the personal and corporate income tax and withholding systems with an increase in the sales tax rate and an expansion of the items and services on which tax would be imposed. This would include new vehicles/vessels/boats/outboard motors that are not purchased for business use. The presumption is that there would be no change in state revenues; however, until this bill was implemented, the impact on state revenues would be undeterminable.

No later than January 1, 2009, the Department of Revenue would be required to submit a report to the General Assembly, providing methods specified within the proposal for the transition. DOR would determine a method for adjusting the sales tax rate each year, to provide for the funding of all budgetary requirements existing at the time the income tax was eliminated.

DOR would be required to provide a monthly sales tax rebate for each qualified family. The amount of the monthly sales tax rebate would be equal to the product of the rate of sales tax established by the proposal and 1/12th of the annual poverty guidelines. The Department of Revenue would administer the program and promulgate rules. The proposal would be presented to the vote of the people on the November ballot.

DOR officials assume that extensive programming changes to the MITS system would be required, and potential additional programming or elimination of the MINITS system would be required.

ASSUMPTION (continued)

DOR officials stated that they are uncertain of the administrative impact of this proposal at this time. The proposal would require that the revenue replacement methodology be in place by January 1, 2009, and would require a report to the General Assembly on the implementation requirements for this proposal.

DOR assumes a consultant would be required to develop the methodology required by this legislation, as Taxation is uncertain if the department could complete the analysis in the time provided. DOR cannot estimate the approximate cost of a consultant for this legislation but assumes the cost would exceed \$100,000.

DOR assumes that administrative resources could be moved throughout the department as needed. At this time, DOR is assuming no additional full time employees would be needed. DOR anticipates a net increase of \$8.2 million for postage to mail the monthly rebate checks. DOR officials stated that electronic payment systems could possibly be developed to reduce this additional mailing cost.

DOR provided an estimate of the IT cost to implement the proposal.

The Office of Administration, Information Technology Services Division (ITSD/DOR) estimated that implementation of this proposal would require six existing FTE CIT III for six months at a total cost of \$211,752 plus two additional FTE CIT III for maintenance. The increased state sales tax rates and expanded database would require two existing FTE 2 CIT III for two months at a total cost of \$23,528 plus one additional FTE for maintenance. The increased levels of processing and printing would cost \$421,230 for each 12 month period at 560,000 filings or \$842,460 for each 12 month period at 1.2 million filings.

Dependent on the number of legislative proposals passed during this session, the staff supporting the Department's information technology needs will reach a saturation point. This could result in a budget request to fund staff overtime or professional services to meet these competing priorities.

ASSUMPTION (continued)

**Oversight** assumes that DOR could implement the proposal with existing IT resources, and could request additional funding through the budget process if needed. Oversight will indicate an unknown cost in excess of \$100,000 in FY 2009 for consulting or other expenditures for the analysis and design of a replacement revenue system. Oversight will indicate an unknown increase or reduction for DOR operating costs for FY 2010 and FY 2011 since Oversight can not determine whether a replacement system would be more or less expensive than the current system.

Officials from the **Office of Administration, Division of Budget and Planning** assume this proposal would not result in additional costs or savings to the Division of Budget and Planning.

BAP officials stated that this proposal would eliminate taxes on income in Missouri and replace them with a sales tax. The proposal would require all lost revenues to be replaced. Therefore, BAP assumes this proposal would have a neutral impact on general and total state revenues.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would define sales subject to tax and authorize the Department of Revenue to set the state sales tax rate on the new, broader definition of the sales tax base. The proposal would also eliminate state income taxes. These two aspects of the proposal would be constructed so that the funds paid into the state General Revenue Fund would be neutral. The additional sales tax would offset the loss of income tax revenues. There would be no revenue impact associated with the proposal.

**Oversight** assumes that this proposal would be implemented in a way that would provide statewide sales tax revenues equivalent to the income and other taxes that would be repealed and would therefore have no fiscal impact to the state. Oversight also assumes that this proposal would be submitted to the voters on a general election ballot and that there would not be any cost to the Secretary of State that is not funded by existing appropriations.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
<b>GENERAL REVENUE FUND</b>			
<u>Cost</u> - Department of Revenue Study and of replacement revenue system.	<u>(More than \$100,000)</u>	<u>\$0</u>	<u>\$0</u>
<u>Cost or Savings</u> - Department of Revenue Operations	<u>\$0</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(More than \$100,000)</u></b>	<b><u>Unknown to (Unknown)</u></b>	<b><u>Unknown to (Unknown)</u></b>
<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 an impact to small businesses for the increased cost of collecting and remitting sales tax.

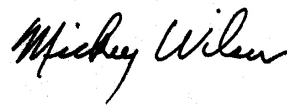
FISCAL DESCRIPTION

This proposal would replace the existing income tax system with an expanded sales tax system.

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  
    Administrative Hearing Commission  
    Division of Budget and Planning  
Department of Economic Development  
Department of Revenue  
University of Missouri  
    Economic Policy Analysis and Research Center

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
March 4, 2008