COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4496-05
Bill No.: HCS for HB 2112
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: March 19, 2008

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

FISCAL SUMMARY

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All 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 **Office of Administration, Administrative Hearing Commission** assume this proposal would have no fiscal impact on their organization.

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 **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 **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 ballet.

ASSUMPTION (continued)

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.

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 assumes that the resources currently devoted to operating the income tax systems would no longer be needed, resulting in unknown cost reductions. Oversight assumes these resources could be applied to the operation of an expanded sales tax system. Oversight also notes that the Missouri income tax system is partly based on the federal income tax system; an expanded sales tax system would be operated independently. Because of the standalone nature of the proposed sales tax system and the requirement to develop a monthly rebate system for qualified families, Oversight assumes the sales tax system would require more resources than the income tax system. Oversight will indicate an unknown cost for increased DOR operating costs for FY 2010 and FY 2011.

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.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State** (SOS) provided the following estimate of the cost to publish rules for this proposal.

This proposal would require the Department of Revenue to promulgate rules. Those rules would be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the various agencies could require as many as 132 pages in the Code of State Regulations. The estimated cost of a page in the Code of State Regulations is $27.00. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. The estimated cost of a page in the Missouri Register is $23.00. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.

SOS provided an estimate of the cost to publish the rules which could be published as a result of this proposal; ((132 pages x $27 per page) = $3,563) + ((198 pages x $23 per page) = $4,554) = $8,117.

Oversight assumes the SOS could publish the rules with existing resources. If unanticipated costs are incurred or if multiple proposals are implemented which increase the SOS workload, resources could be requested through the budget process.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State** (SOS) provided the following estimate of the cost to publish the statewide ballot measure language for this proposal.

Many bills are considered by the General Assembly that would require the SOS to pay for publishing in local newspapers the full text of each statewide ballot measure. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. Funding for this item is adjusted each year depending upon the election cycle with $1.6 million historically appropriated in even numbered fiscal years and $100,000 appropriated in odd numbered fiscal years to meet these requirements. The appropriation has historically been an estimated appropriation because the final cost is dependent upon the number of ballot measures approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2007, at the August and November elections, there were 6 statewide Constitutional Amendments or ballot propositions that cost $1.2 million to publish (an average of $193,000 per issue). Therefore, the SOS assumes, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. However, because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly change the amount or eliminate the estimated nature of our appropriation.

Oversight assumes that this proposal would be submitted to the voters on a general election ballot and that the cost to the SOS could be absorbed with existing resources.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Study and of replacement revenue system.	(More than $100,000)	$0	$0
Cost or Savings - Department of Revenue			
Operations	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $100,000)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

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 the Secretary of State
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

Mickey Wilson, CPA
Director
March 19, 2008

SS:LR:OD (12/02)