COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2316-04
Bill No.: HCS for HJR 36
Subject: Constitutional Amendments; Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: March 12, 2009

Bill Summary: Would propose a constitutional amendment which would replace income taxes, sales and use taxes, and estate taxes with a sales tax on new retail sales and services.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	$0	$0 or (More than $100,000)	$0 or (Unknown)
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0 or (More than $100,000)**	**$0 or (Unknown)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
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 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0 or**

FISCAL ANALYSIS

ASSUMPTION

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

BAP officials stated that this proposal, upon voter approval, would eliminate all taxes on income in Missouri. Lost revenues would be replaced by a sales tax of 5.11%. BAP officials noted that the intent of the proposal is to be revenue neutral, and the proposal allows the General Assembly to determine by statute the scope of taxable services, and to implement the remaining provisions of the proposal. Therefore, BAP assumes this proposal would neither increase nor decrease general and total state revenues in the long run.

BAP noted that according to US Census Bureau reports, the poverty thresholds range from $10,400 to $24,800 annually, depending on family size. The proposal does not clearly specify which figure is to be used to calculate the sales tax rebate. At 5.11%, the rebates could therefore be $531.44 to $1,267.28 per resident. Missouri's 2008 population was 5,911,605. This rebate could total $3,141 million to $7,492 million annually.

BAP noted the following state revenue totals for FY08:

Net individual income tax:	$5,210 million
Net corporate income and franchise:	$ 459 million
Net county foreign insurance (if income):	$ 186 million
Total net taxes on income:	$5,855 million
Net sales tax:	$1,931 million

BAP assumes that the general assembly would leave the substantial amount of current sales tax exemptions in place in order to avoid taxing "component parts and ingredients". BAP notes that since $1,931 million was collected in FY08 at a 3% tax rate, a 5.11% rate would generate an additional $1,358 million of general revenues.

ASSUMPTION (continued)

According to the US Bureau of Economic Analysis, $6,068,400 million in services was consumed in 2008 nationally. BAP assumes 1.75% of this amount occurs in Missouri, and is substantially untaxed under present law, but would be taxable under the new law. If all of those services were made taxable after the enactment of this proposal, the 5.11% sales tax rate would generate an additional $5,427 million annually. In summary:

Income Taxes eliminated:	$5,855 million
Sales Tax Rebates required:	
Minimum	$3.141 million
Maximum	$7.492 million
Estimated sales tax revenue:	
Increased rate on current taxable sales	$1,358 million
Additional tax from services	$5,427 million
Total	$6,785 million

Oversight has calculated the difference in state revenues using the BAP estimates, and notes that the difference would be larger than the BAP estimates since those estimates did not include estate taxes nor local sales and use taxes which would be outlawed.

Total Sales Tax Required for Revenue Neutrality	
Minimum ($5,855 million + $3,141 million) =	$8,996 million
Maximum ($5,855 million + $7,492 million) =	$13,347 million
Total additional sales taxes	$6,785 million
Difference	
Minimum ($8,996 million - $6,785 million) =	$2,211 million
Maximum ($13,347 million - $6,785 million) =	$6,562 million

Oversight assumes that the General Assembly would adjust the sales tax rate to compensate for the calculated revenue shortfall and will indicate no revenue reduction for state funds.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would have the following impact.

For all taxable years beginning on or after January 1, 2012, no tax shall be imposed on income derived from any source. Revenues lost would be replaced by a tax on sales, use or consumption of all tangible personal property or taxable services. The tax rate would be established at 5.11%. The General Assembly may adjust the tax once as a result of lost revenue. Tax levy rates imposed would be substantially equal to the amount received the proceeding fiscal year.

Taxes to be replaced include:

Withholding, individual and corporate income tax;
corporate and bank franchise taxes;
all state and local sales and use taxes
estate taxes; and
all state taxes on any source of income.

DOR would be required to develop a method to provide a monthly sales tax rebate, the amount of the rebate would equal the rate of sales tax times 1/12 of the annual poverty guidelines. DOR would develop rules and regulations to implement these provisions. DOR assumes that extensive programming to MITS, MTAS and TRIPS systems would be required and that reprogramming or elimination of the MINITS, COINS and Withholding systems could be required. DOR also assumes that it would need to notify at least 150,000 businesses of the change in rate.

Taxation is uncertain what the administrative impact of this legislation would be at this time. In order to implement this legislation, extensive programming would be required before DOR could estimate the cost. It is assumed that resources could be moved throughout the department as needed. At this time, the Department is assuming no additional full time employees would be needed.

Taxation is not currently able to estimate the cost of administering the rebate program. Making monthly payments to every Missouri taxpayer would require significant programming and would require significant upfront and ongoing costs. This cost is unknown but estimated to be greater than $100,000.

ASSUMPTION (continued)

The costs associated with notifying in excess of 150,000 businesses is unknown as the new sales tax rates may apply to service providers not currently registered with the Department of Revenue; however, this cost is estimated to be less than $100,000.

The Motor Vehicle Bureau would be required to modify procedures and change tax rate tables, notify business licensees annually of the new tax rates, and change the tax rate tables. The estimated cost per year is $3,779 for notifications. In addition, business licensees would discontinue charging sales and use tax on used units and DOR would be required to develop new tax exemption codes for business use vehicles and eliminate certain tax exemptions, including trade-ins.

Local Sales and Use Tax Impact

Oversight notes that this version includes a provision requiring local governments to recalculate their tax rates. Although that process could require some consulting and staff time, Oversight assumes for fiscal note purposes that provision would have no impact to local governments.

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

Officials from the **Office of Administration**, **Information Technology Services Division** (ITSD/DOR) noted that the estimated IT impact to implement the proposal would include significant modifications to the MITS, MTAS and TRIPS systems, and development of a new system to administer the rebate program. ITSD/DOR officials did not provide a detailed estimate of the cost but assume the IT cost to implement the proposal could range from $244,255 to Unknown. ITSD/DOR officials assume the the IT portion of this request could be implemented with existing resources; however, if priorities shift, additional FTE/overtime would be needed.

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 2011 for consulting or other expenditures for the analysis and design of a replacement revenue system.

ASSUMPTION (continued)

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 impact for increased DOR operating costs for FY 2012.

Officials from the **University of Missouri**, **Economic Policy Analysis and Research Center** (EPARC) assumed a previous version of this proposal would, if enacted, replace individual and corporate income tax, corporate franchise and bank franchise taxes, estate tax and existing state and local sales and use taxes with a state sales tax. Specifically, beginning January 1, 2012, individual and corporate income tax, corporate franchise and bank franchise taxes, estate tax and existing state and local sales and use taxes would be replaced with a state sales tax at a rate of 5.11%. The General Assembly could make one adjustment to the rate after its imposition so that the impact is revenue-neutral. Each resident would receive a monthly sales tax rebate based on the federal poverty level guidelines.

The proposal includes a joint resolution clause and would be submitted to the voters as an amendment to the Missouri constitution.

Officials from the **Office of the Secretary of State** (SOS) stated that a previous version of the 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 and the current rules published by the Department of Revenue regarding income tax and sales tax; the rules, regulations and forms could require as many as 290 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code. The estimated cost of a page in the Missouri Register is $23, and the estimated cost of a page in the Code of State Regulations is $27.00. (($23 x 435) + ($27 x 290) = $17,835)

ASSUMPTION (continued)

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.

Officials from the **Office of the Secretary of State** (SOS) provided the following statement in regard to the cost to publish the statewide ballot measure language for a similar proposal.

Each year a number of bills are considered by the General Assembly that would require statewide elections to allow the voters to decide the issues in the legislation. State statutes require the SOS to be provided with $4.3 million in general revenue core funding to handle such special elections. The appropriation had historically been an estimated appropriation because the final cost each year is dependent upon the number of special elections required to fill vacant legislative seats and the number of ballot measures approved by the General Assembly. However, in recent years an estimated appropriation has only been provided in presidential primary years. Therefore, the SOS assumes for the purposes of this fiscal note that it should have the full appropriation authority it needs to meet these special election costs. However, we reserve the right to request funding if needed to meet these mandatory requirements.

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.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would replace individual and corporate income taxes, corporation franchise and bank franchise taxes, and all existing state sales and use tax.

The DNR Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to the Missouri Constitution. It appears that this proposal would allow for the conservation sales tax and the soil and parks sales tax to be recalculated to produce substantially the same amount of revenue. If that is the intent, then for purposes of this fiscal note, DNR would not anticipate a direct fiscal impact from this provision. If that is not the intent of this proposal and the department's parks and soils sales tax is eliminated as a result of this proposal, then there would be a significant fiscal impact to the department. Funding would have to be sought to replace the monies currently collected from the department's sales and use tax. DNR assumes the Department of Revenue would be better able to estimate the potential fiscal impact.

ASSUMPTION (continued)

This proposal would also appear to eliminate all sales tax exemptions. Currently, the State of Missouri is a tax-exempt entity. If DNR is required as a result of this proposal to pay the newly created 5.11% sales tax on the purchase of all goods and services, then there would be a significant unknown fiscal impact to the department. Each state agency's operating budget would increase substantially. DNR assumes the Office of Administration would be better able to estimate the amount of fiscal impact from this provision for each department.

Officials from the **State Tax Commission**, **Linn State Technical College**, and the **Metropolitan Community Colleges** assume the proposal would have no fiscal impact on their organizations.

Officials from the **City of Centralia** assume this proposal could require the city to pay sales and use taxes on its purchases. City officials assume that provision would cost the city an additional $38,500 if utilities are taxable and $14,700 if health insurance premiums are a taxable service.

Oversight assumes that certain sales and use tax exemptions such as the current exemptions for state agencies and local governments would be included in the enabling legislation if the proposal was enacted and approved by popular vote.

Officials from the **City of Springfield** assume that the loss of franchise taxes would result in a $10 million annual loss of revenues.

Oversight assumes that franchise taxes on city utilities would be recalculated under this proposal or would be exempted in the enabling legislation if the proposal was enacted and approved by popular vote.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Cost - Department of Revenue Study of replacement revenue system.	$0	$0 or (More than $100,000)	$0
Cost - Department of Revenue Operations	$0	$0	$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0 or (More than $100,000)**	**$0 or (Unknown)**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which would collect and remit the sales tax.

FISCAL DESCRIPTION

This proposal would submit to the voters a constitutional amendment which would require the replacement of all income taxes, sales and use taxes, and estate taxes with a state sales tax on new retail sales and services.

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 Revenue
Department of Natural Resources
State Tax Commission
University of Missouri
    Economic Policy Analysis and Research Center
Linn State Technical College
Metropolitan Community Colleges
City of Centralia
City of Springfield

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