

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4435-02
Bill No.: HB 1860
Subject: Motor Vehicles; Revenue Department; Tax Credits; Taxation and Revenue
Type: Original
Date: February 16, 2010

Bill Summary: This proposal authorizes a tax credit equal to 100% of the state sales tax paid on any motor vehicle assembled and purchased in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	(\$7,204,641 to \$9,557,332)	(\$7,212,904 to \$9,565,595)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$7,204,641 to \$9,557,332)	(\$7,212,904 to \$9,565,595)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	0	2 FTE	2 FTE
Total Estimated Net Effect on FTE	0	2 FTE	2 FTE

☒ 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 2011	FY 2012	FY 2013
Local Government	\$0	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within DOR's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$31,164 (1,176 FTE hours to make programming changes to the individual income tax system (MINITS), the sales tax system (MITS) and the corporate income tax system (COINS)).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** state the proposal would create a tax credit equal to the sales tax paid on sales of new vehicles assembled and sold in Missouri. Data from the Department of Revenue indicates there were 9,685 new vehicles that were assembled in Missouri and sold by Missouri dealers during FY '08, accounting for \$7,174,057 in state sales tax. In addition, there were 10,628 new ATV's sold by Missouri dealers accounting for \$2,352,691 in state sales tax. BAP does not have information on how many of these units were assembled in Missouri. Therefore, BAP estimates that general and total state revenues may be reduced by \$7.2 million to \$9.5 million annually.

Oversight has no information regarding ATV manufacturers in Missouri, and will assume the fiscal impact from this proposal could range from \$7,174,057 to \$9,526,748 per year.

Officials from the **Office of the Secretary of State (SOS)** assume 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 the Secretary of State's Office 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

ASSUMPTION (continued)

on a review of the finally approved bills signed by the governor.

In response to a similar proposal from 2009 (HB 553), officials from the **Department of Insurance, Financial Institutions and Professional Registration** (DIFP) stated it is unknown how many insurance companies would choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between the General Revenue Fund and the County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds would be impacted by tax credits each year.

DIFP officials stated that implementing the proposal would require minimal contract computer programming to add this new tax credit to the premium tax database and could do so under an existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

Oversight assumes this proposal could be implemented by DIFP with existing resources.

Officials from the **Department of Revenue** (DOR) assume this proposal would, beginning January 1, 2011, provide a tax credit to any individual or entity subject to the tax imposed in chapter 143, excluding withholding tax, or the tax imposed in chapter 147, 148, or 153. The tax credit would be equal to the amount of state sales tax paid on the purchase of a qualifying vehicle assembled and sold in the state. The credit would be refundable and could be transferred, sold, or assigned.

The proposal would not prohibit the levy of any local sales tax, on any sales of new motor vehicles assembled and sold in the state on or after January 1, 2011; however, a political subdivision which has enacted a local sales tax on such sales may by order or ordinance exempt such sales from the local sales tax law.

DOR officials state that individual income tax forms and instruction changes would be required, corporate income tax forms and instruction changes would be required, sales tax forms and instruction changes would be required, and MINITS system changes would be required. New form would be required for the tax credit, and COINS and CAFÉ system changes would be required. MITS system changes would be required, and Insurance Premium Tax system changes would be required.

ASSUMPTION (continued)

DOR officials also stated that the exemption from local tax would require significant programming for motor vehicle. In order to capture this in MITS, item taxes would have to be added to motor vehicle taxes to account for a reduction in rate for in-state. Therefore, just using site codes would no longer work for motor vehicle purposes. DOR officials stated that they would have to convert to city/county combinations and account for the item tax in MITS in order to properly feed the motor vehicle account. For MITS, Taxation would have to establish multiple item records to exempt either city, county, or district taxes from motor vehicles.

In addition, DOR officials stated that Taxation's assumption is that the Motor Vehicle system programmers would assign new motor vehicle codes, and all the programming would be on the MITS side.

DOR officials provided an estimate of the cost to implement this proposal including two additional employees with related equipment and expenditures totaling \$79,301 for FY 2011, \$84,162 for FY 2012, and \$86,689 for FY 2013.

Oversight assumes DOR's estimate of expense and equipment cost for the new FTE could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$11,200.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employees 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 and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines. Finally, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Oversight assumes that this proposal would become effective in January, 2011 and that the fiscal impact to the state would begin with 2011 tax returns filed in January, 2012 (FY 2012). Oversight will include an adjusted estimate of DOR costs for six months in FY 2012.

Because the local sales tax exemption would depend on action taken by the local governments, Oversight will indicate a fiscal impact of \$0 to (Unknown) for local governments.

This proposal could decrease Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
<u>Costs - Department of Revenue</u>			
Personal Service (2 FTE)	\$0	(\$12,031)	(\$24,783)
Fringe Benefits	\$0	(\$6,309)	(\$12,996)
Expense and Equipment	<u>\$0</u>	<u>(\$12,244)</u>	<u>(\$1,068)</u>
<u>Total Costs - DOR</u>	\$0	(\$30,584)	(\$38,847)
FTE Change - DOR	0 FTE	2 FTE	2 FTE
<u>Loss - Income tax credit for purchase of qualifying vehicle</u>	<u>\$0</u>	(\$7,174,057 to <u>\$9,526,748</u>)	(\$7,174,057 to <u>\$9,526,748</u>)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>\$0</u>	(\$7,204,641 to <u>\$9,557,332</u>)	(\$7,212,904 to <u>\$9,565,595</u>)
Estimated Net FTE Change for the General Revenue Fund	0 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENTS			
<u>Loss - ability to participate in sales tax credit on motor vehicles assembled and purchased in Missouri</u>	<u>\$0</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT TO LOCAL GOVERNMENTS	<u>\$0</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses that purchase Missouri-made vehicles may qualify for the tax credit and have a positive fiscal impact as a result of this proposal.

FISCAL DESCRIPTION

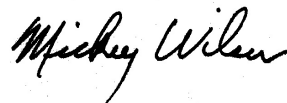
Beginning January 1, 2011, this bill authorizes a tax credit equal to 100% of the state sales tax paid on any new motor vehicle assembled and purchased in Missouri on or after that date. The tax credit is refundable and may be claimed against a taxpayer's income tax; corporate franchise tax; financial institutions tax; and bridge, express, and public utility companies tax. Any political entity may exempt these sales from the local sales tax by order or ordinance.

The provisions of the bill will expire December 31 six years from the effective date.

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

Department of Revenue
Office of Administration - Budget and Planning
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State



Mickey Wilson, CPA
Director
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