

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5278-02
Bill No.: HCS for HB 2302
Subject: Taxation and Revenue - Sales and Use; Annexation; Counties; Tourism
Type: Original
Date: April 15, 2010

Bill Summary: Would implement the streamlined sales and use tax agreement.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0	(\$144,156) to More than \$100,000	(\$133,102) to More than \$100,000
Total Estimated Net Effect on General Revenue Fund	\$0	(\$144,156) to More than \$100,000	(\$133,102) to More than \$100,000

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Conservation Commission	\$0	More than \$100,000	More than \$100,000
Parks, and Soil and Water	\$0	More than \$100,000	More than \$100,000
School District Trust	\$0	More than \$100,000	More than \$100,000
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	More than \$100,000	More than \$100,000

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	3	3
Total Estimated Net Effect on FTE	0	3	3

☒ 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	(Unknown) to More than \$100,000	(Unknown) to More than \$100,000

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** stated in response to a previous version of this proposal that 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 SOS 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 on a review of the finally approved bills signed by the Governor.

ASSUMPTION (continued)

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 legislation. The proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement by January 1, 2012.

BAP does not have an estimate of the sales tax revenues to be gained from this proposal, but notes that many sales that occur via e-commerce or other remote sellers would be subject to sales tax under this agreement. Two studies of the revenues that Missouri might gain from collecting sales tax on e-commerce provide an estimated range of \$108 million (Eisanach & Litan, Feb. 2010) and \$210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales.

The proposal would also create a one percent collection fee for local sales taxes, which would be withheld from local sales tax collections and deposited in the General Revenue Fund. This proposal would increase general and total state revenues, and local revenues.

Officials from the **Department of Conservation** (MDC) assume this proposal would have an unknown fiscal impact on MDC funds. MDC is unable to estimate the impact of the proposal on MDC and will rely on DOR for the estimated impact of this legislation.

Officials from the **Department of Natural Resources** (DNR) assume this proposal would require the Department of Revenue to promulgate rules to implement the streamlined sales and use tax agreement.

According to a 2009 University of Tennessee study - State and Local Sales Tax Revenue Losses from Electronic Commerce, total state revenues that Missouri could gain from collecting sales tax on e-commerce in FY 2012 is estimated at \$210 million.

The DNR Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any increase in sales tax collected would increase revenue to the Parks and Soils Sales Tax Funds. The department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would require their organization to enter into a Streamlined Sales Tax Agreement with one or more other states and take such other action, including the creation of rules, as may become necessary to implement the provisions of the streamlined sales and use tax agreement.

The proposal would enact destination sourcing procedures for sales of tangible personal property which originate outside the state; destination sourcing would apply the sales tax rate in effect at the purchaser's location to that transaction. DOR officials said that current origin sourcing rules, which apply the sales tax rate in effect at the seller's location, would remain in effect for sales which originate within the state.

DOR would participate in an online registration system to allow sellers to register in this state, and would maintain a database with tax rates and boundary changes for all taxing authorities as well as the effective dates of such changes for sales and use tax purposes. DOR would also maintain a taxability matrix, a listing of what types of transactions are subject to tax and at what rate or rates, in a database that could be downloaded by sellers.

DOR officials would create an electronic filing application and make changes to forms. DOR officials and ITSD-DOR would make significant changes to the current Missouri Sales Tax System (MITS) and to the taxation cashing transmittal system. DOR would also withhold and remit to the General Revenue Fund a one percent collection fee on local taxes collected as a result of the Streamlined Sales Tax Act.

DOR officials stated that they did not envision an FTE impact for the Sales Tax area, but that rule writing would create a significant impact for which DOR would need additional managerial assistance. DOR officials estimated that this would require one FTE Management Analyst Specialist I (Range 23, Step Q).

The DOR response included three additional employees and related benefits, equipment, and expenses, totaling \$143,917 for FY 2011, \$155,296 for FY 2012, and \$159,956 for FY 2013.

ASSUMPTION (continued)

Oversight assumes that the Streamlined Sales and Use Tax Agreement provisions would apply only to retail transactions by sellers which do not currently have a physical location in the state. The proposal would require those retailers to report taxable sales in Missouri and remit sales tax on those Missouri sales. This requirement would likely increase state sales tax collections, but the number of filers using the current DOR sales and use systems would not likely change. Therefore the proposal would not likely have a significant impact on Department of Revenue staffing for sales tax processing.

The proposal would require DOR to promulgate rules and take any other action necessary to implement the provisions of the Streamlined Sales and Use Tax Agreement. The proposal would also require political subdivisions to adopt, implement, and incorporate by reference all provisions contained within the streamlined sales and use tax agreement.

Oversight will include three additional DOR employees in this fiscal note for FY 2012 and 2013, and has, for fiscal note purposes only, changed the starting salary for the new positions 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 for new state employees for a six month period, and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has adjusted the DOR estimate of expense and equipment costs in accordance with OA budget guidelines, and assumes that a limited number of additional employees could be accommodated in existing office space.

Oversight assumes the DOR estimate of expense and equipment cost for additional FTE could be overstated. If DOR is able to use existing equipment such as desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2012 could be reduced by roughly \$5,000 per employee.

DOR officials also provided an estimate of the IT impact of implementing the proposal. DOR estimated the cost to implement the IT portion of the proposal at \$95,612, based on 3,608 programming hours to make changes to the sales tax processing system (MITS).

Oversight assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of normal 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.

ASSUMPTION (continued)

Officials from the **Department of Transportation** (MODOT) assume this proposal would have no fiscal impact on their organization.

Officials from **St. Louis County** stated that this proposal would seem to carry a significant potential impact but it is virtually impossible to quantify.

Oversight assumes that the General Revenue Fund, other state funds which receive sales and use tax revenues, and local governments would have additional revenues from the implementation of the agreement but the amounts can not be determined. For fiscal note purposes, Oversight will indicate an increase in revenue in excess of \$100,000 per year for those funds and for local governments, beginning January 1, 2012.

Oversight will indicate an unknown increase in revenue for the General Revenue Fund for DOR collection fees. Oversight assumes the additional fees would be withheld from the additional revenues from Streamlined Sales Tax transactions and would be netted against the additional revenue for local governments. Oversight will not separately indicate those withholdings from local government revenues.

Oversight notes that this proposal would require all state agencies and local governments to implement the provisions of the streamlined sales and use tax agreement. Any provision of state law in conflict with that agreement would be voided.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
<u>Revenue increase</u> - Streamlined Sales and Use Tax Agreement	<u>\$0</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
<u>Revenue increase</u> - Collection fees withheld from local sales taxes	<u>\$0</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Cost</u> - Department of Revenue			
Salaries - 3 FTE	\$0	(\$83,751)	(\$86,264)
Benefits	\$0	(\$43,919)	(\$45,237)
Equipment and expense	<u>\$0</u>	<u>(\$16,486)</u>	<u>(\$1,601)</u>
Total	<u>\$0</u>	<u>(\$144,156)</u>	<u>(\$133,102)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$144,156) to</u> <u>More than</u> <u>\$100,000</u>	<u>(\$133,102) to</u> <u>More than</u> <u>\$100,000</u>
Estimated Net FTE Effect on General Revenue Fund	0	3	3
<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
CONSERVATION COMMISSION FUND			
<u>Revenue increase</u> - Streamlined Sales and Use Tax Agreement	<u>\$0</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>\$0</u>	<u>More than</u> <u>\$100,000</u>	<u>More than</u> <u>\$100,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
PARKS, AND SOIL AND WATER FUND			
<u>Revenue increase - Streamlined Sales and Use Tax Agreement</u>	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue increase - Streamlined Sales and Use Tax Agreement</u>	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2011 (10 Mo.)	 FY 2012	 FY 2013
LOCAL GOVERNMENTS			
<u>Revenue increase - Streamlined Sales and Use Tax Agreement</u>	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>More than \$100,000</u>	<u>More than \$100,000</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses, which will have to develop procedures to implement destination sourcing.

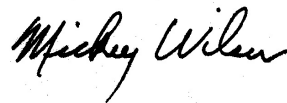
FISCAL DESCRIPTION

The proposed legislation would implement the streamlined sales and use tax agreement.

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 Conservation
Department of Natural Resources
Department of Revenue
Department of Transportation
St. Louis County



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Director
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