COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5927-01
Bill No.: HJR 80
Subject: Taxation and Revenue - General; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use; Revenue, Department of; Constitutional Amendments
Type: Original
Date: March 3, 2014

Bill Summary: This proposal would submit to the voters a constitutional amendment that would phase out the income tax and replace it with a sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue *	$0 or (More than $7,110,701)	$0 or Less than $1,126,922,331	$0 or ($144,174,780)
Total Estimated Net Effect on General Revenue Fund *	**$0 or (More than $7,110,701)**	**$0 or Less than $1,126,922,331**	**$0 or ($144,174,780)**

* Estimated Net Effect to the General Revenue Fund in FY 2018 and beyond from the tax changes is ($74,634,941). Also, DOR staff reductions are outside the scope of this fiscal note.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 21 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Various State Funds	$0	$0 or ($165,375,445)	$0 or ($330,750,890)
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or ($165,375,445)**	**$0 or ($330,750,890)**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	0 FTE	0 or 170 FTE	0 or 170 FTE
Total Estimated Net Effect on FTE	**0 FTE**	**0 or 170 FTE**	**0 or 170 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 2015	FY 2016	FY 2017
Local Government *	**$0**	**$0**	**$0**

* Net of cost and reimbursement.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** assume this amendment would, upon voter approval, phase-out the individual income tax by 2018. In order to compensate for lost revenue from the repeal of the individual income tax, this amendment would gradually increase the state sales tax rate through 2018 and apply the increased tax rate to the current sales tax base, and tax food and specific services as well. The sales tax revenues would be deposited into the General Revenue Fund, and the amendment provides for a transfer from the General Revenue into the School District Trust Fund in the amount of revenue lost from the repeal of Proposition C and associated sales taxes.

The amendment would preserve the current taxes on tobacco and alcohol, aviation fuel, insurance premiums, and any taxes imposed on sales and distributed to the Conservation, Parks & Soils and Motor Fuel Funds. The amendment would allow counties and other political subdivisions to enact an individual income tax on its taxpayers, as long as the appropriate legislation is enacted by 2015 and "lawfully renewed" by its voters.

Regarding property taxes, this amendment would provide a "mechanism for the continuation of any property tax relief available to senior citizens and disabled individuals" that was previously provided in the form of an income tax credit, and would allow for an additional "property tax relief credit" for increases in assessed evaluation above designated limits.

ASSUMPTION (continued)

EPARC officials stated they are currently unable to estimate the impact of allowing counties and other political subdivisions to enact an individual income tax to be upheld by the vote of its constituents. In addition, EPARC officials stated they are unable to estimate the extent of an additional "property tax relief credit" for excessive increases in assessed evaluation. However, the impact of the remaining parts of this legislation is estimated below.

Impact on General Revenue Fund

Individual income tax

This constitutional amendment would propose to reduce the individual income tax rate to a maximum of 3% in 2016, and then allow no tax on individual income in 2018.

EPARC officials noted their baseline simulation for individual income taxes using current provisions and the most recent data from 2012 indicated Net Tax Due of $5,109,439,000. The simulation for the same information and a 3% maximum tax rate on individual income for 2016 indicated Net Tax Due would be $2,694,415,000, a reduction of $2,415,024,000. In 2018, there would be no individual income tax.

Property tax credits

EPARC officials stated they were unable to estimate the amount of "property tax relief credits" for excessive increases in assessed evaluation, but provided the amount of Circuit Breaker Tax Credits that would be provided for under a new property tax relief program. Using the latest individual income tax data for 2012, EPARC officials estimated this amount to be $107,151,960.

Tax on Sales and Services

EPARC officials noted the amendment would compensate for the loss of income tax revenue in 2016, and would repeal current all sales and use taxes within the General Revenue Fund and replace them with a tax on sales and services at a rate of 5%; and then in 2018 would increase the rate to 7%.

ASSUMPTION (continued)

EPARC officials stated their baseline for collections from a tax on the sales of goods was taken from the reported State Sales and Use Tax collections for the General Sales and Use Tax in the Missouri Department of Revenue's Annual Financial and Statistical Report for Fiscal Year 2013. This report shows General Sales and Use Tax collections of $1,895,024,076 from a 3% tax rate. From this we can estimate the current sales of goods base at $63,167,469,200.

If we multiply that base by 5%, we can estimate 2016 sales tax collections on these goods equal to $3,158,373,460; and if we multiply that base by 7%, we can estimate 2018 sales tax collections on these goods equal to $4,421,722,844.

Sales tax on food

EPARC officials noted this amendment would propose a 4% sales tax on food in 2016, increasing in 2018 to 5.5%. EPARC officials estimated Missourians spend $7,135,466,831 on food. Multiplying this base by 4% we estimate the 2016 sales tax collections on food equal to $285,418,673; and if we multiply this base by 5.5% we estimate the 2018 sales tax collections on food equal to $392,450,676.

Sales tax on services

EPARC officials prepared an estimate for revenues from a tax on services, and noted that required an estimate of the tax base for services in Missouri. Accounting for exempt services as stipulated in section 1(f) of this proposed amendment, EPARC officials estimated the tax base on such services at $26,375,578,805. If we multiply this base by 5%, we can estimate the 2016 tax collections on services equal to $1,318,778,940; and if we multiply this base by 7%, we can estimate the 2018 tax collections on services equal to $1,846,290,516.

Sales tax on motor vehicles

EPARC officials noted the proposed amendment would repeal the Highway Use and Motor Vehicle taxes (non-general revenue taxes). However, the proposal would also enact a new tax on sales of goods and services, and sales of motor vehicles would be taxed at the proposed new rates and deposited in the General Revenue Fund. The amendment would also stipulate that "sales of personal property for which a sales or use tax has been collected due to a prior taxable transaction" would be exempt from the new sales tax. Therefore, only the sale of new motor vehicles would be taxed.

ASSUMPTION (continued)

EPARC officials estimated that Missourians spend $3,848,029,734 annually on new motor vehicles. At a 5% tax rate, EPARC officials estimated the taxes on the sales of new motor vehicles in 2016 to be $192,401,487, and at a 7% tax rate, the estimated taxes on the sales of new motor vehicles in 2018 would be $269,362,081.

School District Trust Fund

EPARC officials noted the proposed amendment would require collections from the new tax on sales and services to be deposited in General Revenue Fund, except a portion that would be deposited into the School District Trust Fund, a non-general revenue fund whose tax was also repealed within this amendment. The amount deposited in that fund would be equivalent to the average collections of the fund for the fiscal years 2009 to 2013.

EPARC officials stated they would use the average for fiscal years 2011 to 2013 for the estimate for 2016 and 2018. EPARC calculated the average from the Missouri Department of Revenue's Annual Financial and Statistical Reports for those years at $776,676,324.

The following table summarizes the EPARC estimates for the General Revenue Fund.

	2012	2016	2018
	BASELINE	Food at 4% Other sales at 5% Income tax 3%	Food at 4% Other sales at 7% No income tax
Tax on Current Sales Base	$1,895,024,076	$3,158,373,460	$4,421,722,844
Tax on Food	$0	$285,418,673	$392,450,676
Tax on Services	$0	$1,318,778,940	$1,846,290,516
New Motor Vehicles	$0	$192,401,487	$269,362,081
Individual Income Tax / Circuit Breaker	$5,109,439,000	$2,694,415,000	($107,151,960)
School District Trust Funds to Non-General Revenue	$0	($776,676,324)	($776,676,324)
TOTAL	$7,004,463,076	$6,872,711,236	$6,045,997,833
Change in Net Revenue		($131,751,840)	($958,465,243)

ASSUMPTION (continued)

Sales tax changes

Oversight assumes that General Revenue Fund sales tax revenues would be as follows.

	Baseline	2016	2018
Tax on Current Sales Base	$1,895,024,076	$3,158,373,460	$4,421,722,844
Tax on Food	$0	$285,418,673	$392,450,676
Tax on Services	$0	$1,318,778,940	$1,846,290,516
New Motor Vehicles	$0	$192,401,487	$269,362,081
	$1,895,024,076	$4,954,974,576	$6,929,828,135

The sales tax increase would be effective January 1, 2016 (FY 2016) so that collections would likely be less than one-half of a full year's increase.

* For FY 2016, Oversight will indicate additional revenue less than (($4,954,974,576 - $1,895,024,076) = $3,059,950,500)/2) = $1,529,975,250.

* For FY 2017, Oversight assumes additional revenue would be equal to a full year of the 2016 increase, or $3,059,950,500.

* Oversight assumes less than one-half the calculated transfer amount to the School District Trust Fund would apply in FY 2016. ($776,676,324/2) = $388,338,162. The full amount of $776,676,342 would apply to FY 2017.

ASSUMPTION (continued)

Impact on Other State Funds

Tax on sales and services

EPARC officials noted the proposed amendment would exempt several non-general revenue collections from the repeal of the sales and use tax. These include local taxes authorized for local purposes, taxes on tobacco and alcohol, aviation fuel, insurance premiums, and any taxes collected for the Conservation, Parks & Soils, and Motor Fuel Funds. Baseline figures for Aviation Jet Fuel, Conservation, Parks & Soils, Education, Highway Use, and Motor Vehicles were obtained from the Missouri Department of Revenue's Annual Financial and Statistical Report for Fiscal Year 2013. Baseline figures for Tobacco, Alcohol, Insurance Premiums, and Motor Fuel were obtained from the EPARC database.

The proposed amendment stipulates that tax rates would be adjusted in 2016 for the Conservation and Park & Soils Funds so that collections would be equivalent to the collection average of fiscal years 2010 to 2014.

EPARC officials estimated baseline revenues for 2016 and 2018 collections estimates for the Conservation and Park & Soils funds from the average collections of those funds from fiscal years 2011 to 2013. The estimates for the Baseline, 2016 and 2018 collections for the tax on Aviation Jet Fuel, Tobacco, Alcohol, Insurance Premiums, and Motor Fuel would remain constant for our analysis.

Motor vehicle taxes

EPARC officials noted the proposed amendment would repeal the Highway Use and Motor Vehicle taxes and allow the tax on sales of new motor vehicles to be deposited into the General Revenue Fund.

School District Trust Fund revenues

EPARC officials noted although the proposed amendment would repeal the "Proposition C" sales tax and the associated motor vehicle tax for the School District Trust Fund, the School District Trust Fund would receive an equivalent transfer from the General Revenue Fund.

ASSUMPTION (continued)

The following table summarizes the EPARC estimates for other state funds.

	CALCULATED BASELINE	2016 Sales Tax at 5%	2018 Sales Tax at 7%
Aviation Jet Fuel	$5,617,509	$5,617,509	$5,617,509
Tobacco	$101,169,665	$101,169,665	$101,169,665
Alcohol	$34,428,459	$34,428,459	$34,428,459
Insurance Premiums	$210,417,856	$210,417,856	$210,417,856
Motor Fuel	$708,747,303	$708,747,303	$708,747,303
Conservation Sales & Use	$89,248,413	$89,248,413	$89,248,413
Conservation MV	$10,390,453	$10,390,453	$10,390,453
Parks & Soil Sales & Use	$71,397,403	$71,397,403	$71,397,403
Parks & Soil MV	$8,312,375	$8,312,375	$8,312,375
Education Sales & Use	$728,820,622	$0	$0
Education Motor vehicle	$69,850,666	$0	$0
Highway Use	$75,979,910	$0	$0
Motor Vehicles	$232,776,016	$0	$0
School District Trust Funds from General Revenue	$0	$776,676,324	$776,676,324
TOTAL	$2,347,156,650	$2,016,405,760	$2,016,405,760
Change in Other State Funds		($330,750,890)	($330,750,890)

ASSUMPTION (continued)

Oversight assumes the revenue reduction for fiscal note purposes would be as follows.

Education sales and use	$728,820,622
Education motor vehicle	$69,850,666
Highway Use	$75,979,910
Motor Vehicles	$232,776,016
Total	$1,107,427,214

Oversight also assumes one-half the calculated amount would apply to FY 2016 ($1,107,427,214/2) = $553,713,607. The full year calculated impact would apply to FY 2017.

Local Sales Tax revenues

EPARC officials noted under the proposed amendment, counties and other political subdivisions would be required to modify their local sales tax base in 2014 to include the items and services included in the new state tax on sales and services. They would then be required to recalculate their local sales tax rates in order to generate collections equal to the average annual collections in the five calendar years 2011-2015. EPARC officials stated they assume this language would have a revenue neutral effect on local sales tax revenues.

EPARC officials stated they are unable to estimate the impact of allowing counties and other political subdivisions to enact an individual income tax upheld by the vote of its constituents as well as estimate the extent of an additional "property tax relief credit" for excessive increases in assessed evaluation.

Although they did not respond to our request for information, officials from the **Office of Administration** - **Office of Administration - Budget and Planning (BAP)** assumed similar language in HJR 25 LR 0783-01 (2013) should not result in additional costs or savings to the Division of Budget and Planning. BAP noted that repeal of the state individual income tax would reduce general and total state revenues by an estimated $4,913,900,000 based on FY`12 net receipts.

ASSUMPTION (continued)

Although they did not respond to our request for information, officials from the **Department of Revenue (DOR)** assumed similar language in HJR 25 LR 0783-01 (2013) (dates changed) would have an FTE impact for the processing area in fiscal year 2016 based on a nine-month cycle. The Department must have personnel fully trained as of January 1, 2015. The Department would need to hire and begin training temporary staff in October 2014. For FY 2015, DOR officials assume no additional full-time employees would be needed. This legislation would have a significantly larger impact on the Department if we are required to collect the tax from the person consuming, using or storing the tangible personal property or taxable service.

Personal Tax

FY 2015 – Personal Tax would retain 100% of existing staff to continue the processing and collection duties of individual income tax.

FY 2016 - Personal Tax would retain 100% of existing staff to continue the processing and collection duties of individual income tax.

FY 2017 – Personal Tax would retain 100% of existing staff for the first six months to continue the processing and collection duties of individual income tax

Collections & Tax Assistance (CATA)

FY 2016 - Based on the presumption of doubling the number of businesses, for registration, contacts, and collection efforts –CATA would need an additional 150 temporary employees including CARES phones & licenses. (CATA's FY11 sales use tax and registration FTE impact was 75). Training would begin in October of 2014.

FY 2017 - DOR officials anticipate CATA could reduce 15% of the temporary employees due to a decline in income, withholding and corporate tax accounts

ASSUMPTION (continued)

Corporate/Withholding Tax

DOR officials assume eliminating corporate income, corporate franchise and bank franchise tax would not suddenly eliminate the filing of returns. Fiscal year 2014 corporation income/franchise tax returns would be due throughout the year depending on their fiscal year end. The latest possible extended due date for a FY 14 return would be due on September 15, 2016. Also, corporations would continue to file amended returns for prior years as the IRS continues to make changes to their return.

Corporate Tax Section

FY 2016 - 100% of existing staff would need to be retained in the Corporate Tax Section to continue the processing and collection duties of corporate income/franchise tax and financial institutions tax.

FY 2017 - 100% of existing staff would need to be retained in the Corporate Tax Section to continue the processing and collection duties of corporate income/franchise tax and financial institutions tax.

FY 2018 - 79% of existing staff would need to be retained in the Corporate Tax Section (19 out of 24 FTE) to continue the processing and collection duties of corporate income/franchise tax.

Withholding and Financial Institutions Tax

For fiscal years 2015, 2016 and 2017 - 100% of existing 13 withholding staff would be needed to be retained in the Withholding Tax Section to continue the processing and collection duties of withholding tax and financial institutions tax

ASSUMPTION (continued)

Sales, Excise and Business Tax

DOR officials stated their estimated impact is based on the assumption that the workload for sales/use tax would double because of the additional filers. Based upon FY 2010 program costs, which include processing, correspondence, error correction, refunds, etc., business tax would need an additional 92 temporary employees for sales/use tax. The Department assumes that although the new sales tax would go into effect January 1, 2016, a portion of current staff responsible for corporate tax would not be available for reallocation until FY 2018 and withholding & personal tax staff would not be available for reallocation until the last half of FY 20201, and even then, it may be only a fraction of the employees. Therefore, temporary staff would be needed until the current staff can be reallocated. If the number of new filers should more than double, the amount of additional resources would increase proportionately

FY 2016 – Business tax would need 92 temporary employees and would receive benefits this fiscal year. Training would begin in October 2014.

FY 2017 – Business Tax would still need 92 temporary employees.

FY 2018 – Business tax anticipates receiving a portion of staff responsible for corporate tax numbering 5 employees. 87 temporary employees would still be needed.

One (1) Economist (Range 20, Step Q)

DOR officials noted the following are among the many items that are not currently taxable under the existing sales tax law, but would become taxable under this proposal:

- Prescription drugs
- Doctor, dentist, and veterinary services
- Purchases by not-for-profits
- Hospital charges
- Insurance premiums
- Child care
- Motor fuel (at present, it is only subject to the state excise tax)
- Food (at present, food is subject to a reduced sales tax rate)
- Residential rentals
- Home improvements and repair

ASSUMPTION (continued)

Field Compliance

DOR officials noted in fiscal year 2010, Field Compliance conducted 2,350 sales and use tax audits. In order to conduct the approximately 4,700 sales and use tax audits indicated by a doubling of the number of sales tax licensees, it would be necessary to double our audit enforcement staff. This would require additional instate and out of state personnel. Currently, Field Compliance has 160 assigned positions with an approximate payroll of $7.4 million.

The addition of 160 new positions would increase Field Compliance to 320 positions and a payroll of approximately $14 million.

DOR officials assume each additional employee would have start up costs which include a new computer, file cabinet, desk, chair, side chair, calculator, and on-going supplies. The approximate cost for 160 new employees would be $454,080. The travel and operating budget could potentially double by moving the budget from $400,000 to potentially $800,000. This would bring the approximate Expense and Equipment cost to approximately $1.2 million.

DOR officials also assume each in-state and out of state facility would need to be moved to accommodate the increase in personnel. The estimated cost for this would double fiscal year 2010’s amount of $450,000 to $900,000.

Legal Services

FY 2016 – DOR officials assumed, based on the presumption of doubling the number of businesses licensed to collect and remit sales tax, there would be a substantial increase in the caseload. The income tax cases would decrease over time, but they would continue for the next few years.

Legal services would need to add six (6) additional attorneys, one (1) senior office support assistant- keyboarding, and two (2) support staff.

Oversight notes the provisions would have an impact beginning in FY 2016 and will include DOR costs for FY 2016 and 2017.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State** assume unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2, RSMo, requires the state to pay the costs. The cost of the special election has been estimated to be $7.1 million based on the cost of the 2012 Presidential Preference Primary. This figure was determined through analyzing and totaling expense reports from the 2012 Presidential Preference Primary received from local election authorities.

The Secretary of State's Office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. The Secretary of State's Office 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 $1.3 million historically appropriated in odd numbered fiscal years and $100,000 appropriated in even 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 2013, at the August and November elections, there were 5 statewide Constitutional Amendments or ballot propositions that cost $2.17 million to publish (an average of $434,000 per issue). Therefore, the Secretary of State's Office 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 has reflected in this fiscal note, transfers from the state for potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2014. This reflects the decision made by the Joint Committee on Legislative Research, that the potential cost of elections should be reflected in the fiscal note. The next scheduled general election is in November 2014 (FY 2015). It is assumed the subject within this proposal could be on that ballot; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2015.

ASSUMPTION (continued)

In response to similar provisions in HJR 25 LR 0783-01 (2013) officials from the **Office of the Secretary of State** also stated the legislation 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 current rules of the Department of Revenue regarding income tax and sales tax, the rules, regulations, and forms issued by the Department of Revenue could require as many as 174 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 of State Regulations* 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 estimated cost of a page in the *Code of State Regulations* is $27.00, and the total estimated cost would be $10,701. The impact of this legislation in future years is unknown and depends on the frequency and length of rules filed, amended, rescinded, or withdrawn.

Oversight will include the SOS estimate of rules publication cost in this fiscal note.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization.

Oversight will use the EPARC estimates of revenue changes for the General Revenue Fund and for Other State Funds as shown in the tables above. Because this measure is subject to voter approval, Oversight will indicate an impact of $0 (voters do not approve) to the amounts calculated (voters approve and the proposal is implemented). Oversight notes that the changes for 2018 would impact FY 2018 which is beyond the scope of this fiscal note.

Oversight notes the individual income tax changes would apply to 2016 tax returns which would be filed in January 2017 (FY 2017). Oversight is aware that some individuals would reduce their estimated tax payments or tax withholding in anticipation of a tax reduction but for fiscal note purposes will include the revenue reduction in the year the tax returns would be filed.

Oversight will not indicate any impact for local governments, other than the potential election costs and reimbursement. Oversight notes the local government sales tax rate changes are required to be revenue neutral, and any potential local income taxes would be the result of local government action and voter approval.

FISCAL IMPACT - State Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
GENERAL REVENUE			
Additional revenue - Sales Tax*	$0	$0 or Less than $1,529,975,250	$0 or $3,059,950,500
*Annualized fully implemented impact in FY 2018 and later years would be $5,034,804,059.			
Revenue reduction - Income Tax *	$0	$0	$0 or ($2,415,024,000)
* Fully implemented impact in FY 2018 and later years would be ($5,109,439,000.)			
Cost - SOS			
Publishing Missouri Register and Code of State Regulations expense	$0 or ($10,701)	$0	$0
Cost - DOR			
Temporary Tax Employees (242)	$0	$0 or ($1,429,857)	$0 or ($1,760,221)
Personal Service	$0	$0 or ($6,700,142)	$0 or ($6,767,143)
Benefits	$0	$0 or ($3,399,987)	$0 or ($3,433,987)
Expense and Equipment	$0	$0 or ($3,184,771)	$0 or ($463,605)
Total Cost - DOR	$0	$0 or ($14,714,757)	$0 or ($12,424,956)
FTE Change - DOR	0 FTE	0 or 170 FTE	0 or 170 FTE
Transfer out - School District Trust Fund	$0	($388,338,162)	($776,676,324)
Transfer Out - Office of the Secretary of State - reimbursement of local election authorities for election costs **if** a special election is called	$0 or (More than $7,100,000)	$0	$0
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 or (More than $7,110,701)**	**$0 or Less than $1,126,922,331**	**$0 or ($144,174,780)**

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FISCAL IMPACT - State Government (Continued)	FY 2015 (10 Mo.)	FY 2016	FY 2017
Estimated Net FTE Change for the General Revenue Fund	0 FTE	0 or 170 FTE	0 or 170 FTE
OTHER STATE FUNDS			
Transfer - General Revenue Fund	$0	$0 or $388,338,162	$0 or $776,676,324
Revenue reduction - Various State Funds	$0	$0 or ($553,713,607)	$0 or ($1,107,427,214)
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	**$0**	**$0 or ($165,375,445)**	**$0 or ($330,750,890)**

FISCAL IMPACT - Local Government	FY 2015 (10 Mo.)	FY 2016	FY 2017
LOCAL GOVERNMENTS			
Transfer In - Cost reimbursement from the State for special election	$0 or More than $7,100,000	$0	$0
Expense - Cost for special election	$0 or (More than $7,100,000)	$0	$0
ESTIMATED NET EFFECT TO LOCAL GOVERNMENTS	**$0**	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Upon voter approval, this proposed constitutional amendment phases out the state individual income tax and replaces the current state sales and use tax with a state sales tax on retail sales of new tangible personal property and taxable services. From January 1, 2015, to January 1, 2017, the state individual income tax rate could not exceed 3%. After that date, the individual income tax would be repealed. From January 1, 2015, to January 1, 2017, the state sales tax rate could not exceed 5% and could not exceed 4% for food. After that date, the sum of the rate on food and the rate for the conservation sales tax and the parks and soils sales tax could not exceed 5.5%. From January 1, 2015, to January 1, 2017, the state sales tax rate could not exceed 5%. After that date, the sum of the rate and the rate for the conservation sales tax and the parks and soils sales tax could not exceed 7%.

The revenue from the new sales tax would be deposited into the General Revenue Fund and appropriated by the General Assembly to provide continued funding for programs and deposited into the School District Trust Fund in the amount needed so that the moneys received by the school districts is at least as much as the average of the amount received in fiscal years 2009 to 2013. The General Assembly may increase taxes or fees in the event of an emergency.
Property purchased to be a component part or ingredient of a new tangible personal property to be sold at retail; government purchases including federal, state, and local governments; purchases of inventory; real property transactions; purchases of utilities; purchases of medical services including medications; purchases of professional services; purchases of child care and elderly care; purchases between consolidated entities; purchases of services rendered by employees for his or her employer; business-to-business transactions including agriculture; purchases for investment; purchases involving gambling at licensed bingo, racing, or gambling boats; purchases relating to common carriers; purchases of railroad rolling stock; purchases of barges and cargo; tuition and fees for education; purchases of insurance products and services; purchases of used tangible personal property; purchases by charities; and any purchase of tangible goods or service exempted by a majority vote of two-thirds of each house of the General Assembly and approved by the Governor would be exempt from the new sales tax. Beginning January 1, 2015, exemptions not specifically listed in this resolution would be eliminated.

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FISCAL DESCRIPTION (continued)

The General Assembly would be required to enact a law with an effective date of no later than January 1, 2017, to continue the Senior Citizens Property Tax Credit after the individual income tax is eliminated. The local sales taxes and the conservation sales tax and the parks and soils sales tax would be recalculated to produce substantially the same amount of revenue based on the average collections over a five-year period. The resolution requires the General Assembly to provide a process for the approval or appeal of the Department of Revenue's calculation of the adjusted sales tax rate. The new sales tax rate plus the conservation sales tax rate, the parks and soils sales tax rate, and local tax rates, excluding transportation district taxes and community improvement district taxes, couldnot exceed 10% unless the increase is imposed by voters or the temporary result of the recalculation of local taxes. The resolution creates a property tax relief credit equal to 50% of the increase in taxes on a homestead to be used on the taxpayer's current property tax bill if the prior year's tax liability on the residence increased in value more than 5% in a year of general reassessment or 2.5% in a year without a reassessment. To qualify for the credit, a taxpayer would have to be at least 65 years of age; have total household income of no more than $75,000, adjusted annually based on the change in the federal Consumer Price Index from the previous year; and own a residence of no more than $400,000 appraised value, adjusted annually based on the change in the federal Consumer Price Index from the previous year.

Any taxpayer who claims this credit could not claim the Senior Citizen Property Tax Credit or any similar credit.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

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SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
University of Missouri
    Economic and Policy Analysis Research Center

Not responding:
Office of Administration
    Division of Budget and Planning
Department of Revenue

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