COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0445-01
Bill No.: HB 590
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Taxation and Revenue - Income
Type: Original
Date: February 24, 2015

Bill Summary: This proposal would make changes in the laws regarding taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented *
General Revenue	Could exceed $608,105,629	Could exceed $47,601,979	Could exceed $47,675,274	Could exceed $47,542,248
Total Estimated Net Effect on General Revenue	**Could exceed $608,105,629**	**Could exceed $47,601,979**	**Could exceed $47,675,274**	**Could exceed $47,542,248**

* This proposal could lead to the eventual elimination of the individual income tax; however that outcome would depend on growth in other state revenues. Neither the amounts involved nor the time at which this could occur can not be predicted at this time.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 23 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented *
School District Trust	$176,286,572	$169,540,286	$169,540,286	$169,540,286
Conservation Commission	$22,035,446	$21,192,536	$21,192,536	$21,192,536
Parks, and Soil and Water	$17,628,357	$16,954,029	$16,954,029	$16,954,029
Total Estimated Net Effect on Other State Funds	**$215,950,375**	**$207,686,851**	**$207,686,851**	**$207,686,851**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented *
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented *
General Revenue	9.5 FTE	9.5 FTE	9.5 FTE	9.5 FTE
Total Estimated Net Effect on FTE	**9.5 FTE**	**9.5 FTE**	**9.5 FTE**	**9.5 FTE**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2016	FY 2017	FY 2018	Fully Implemented *
Local Government	**$0**	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Treasurer (STO)** stated their organization has no expertise or knowledge of the complexities of the sales tax rates in place across the state, and do not possess the analytical systems necessary to compile and analyze the data associated with the proposed changes in the sales tax base. The STO would rely heavily on information provided by the Department of Revenue (DOR) in their calculations, and would require additional staff and technology to adequately review sales tax rates submitted by the DOR for verification.

STO officials provided an estimate of costs to implement this proposal including 3.5 additional employees; the total cost including salaries, benefits, equipment, and expense totaled $335,060 for FY 2016, $293,971 for FY 2017, and $296,910 for FY 2018, with similar costs for years after FY 2018.

ASSUMPTION (continued)

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 for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the STO estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would reduce Total State Revenues (TSR) by $12.4 million per year once fully implemented, and would impact the calculation required under Article X, Section 18(e) of the state constitution.

BAP officials stated the TSR impact for the first year appears to violate Article X Section 18(e).

Income Tax

BAP officials stated this proposal would reduce the top rate of individual income tax by 0.1% in 2015 and again in 2019 through 2022. It would also reduce the top individual income tax rate in 2016, 2017, 2018 if tax revenues, including the rate reduction, are substantially equal to or greater than total tax revenues for the prior year. BAP officials assume 2018 would be the final year the top tax rate is adjusted by holding total revenue constant.

ASSUMPTION (continued)

BAP officials provided the following projected individual income tax collections under current law and under the proposed law. The projections in this table were based on average annual growth of 3.5% and are in millions of dollars.

Tax Year	Current Law Projections	Current Law Tax Rate	Proposed Bill Projections	Proposed Law Tax Rate	Difference
2015	$6,731	6.0%	$6,652	5.9%	($79)
2016	$7,058	6.0%	$5,322	4.5%	($1,736)
2017	$7,193	5.9%	$5,146	4.2%	($2,047)
2018	$7,326	5.8%	$5,078	4.0%	($2,248)
2019	$7,459	5.7%	$5,129	3.9%	($2,330)
2020	$7,592	5.6%	$5,177	3.8%	($2,414)
2021	$7,724	5.5%	$5,223	3.7%	($2,502)
2022	$8,003	5.5%	$5,264	3.6%	($2,738)

ASSUMPTION (continued)

Sales Tax

BAP officials stated this proposal would increase the sales tax base to include most services, would remove certain current exemptions, and would eliminate the state sales tax on food.

BAP officials provided the following projected sales tax collections under the current law and under the proposed law. The projections for the current sales tax were based on average growth of 2.4% and the projections for the proposed law were based on average growth of 4.5%. Amounts are in millions of dollars.

Tax Year	Sales Tax Current Base	Sales Tax Proposed Base	Difference
2015	$2,034	$2,616	$582
2016	$2,077	$3,951	$1,874
2017	$2,127	$4,129	$2,002
2018	$2,178	$4,315	$2,137
2019	$2,230	$4,509	$2,279
2020	$2,284	$4,712	$2,428
2021	$2,339	$4,924	$2,585
2022	$2,395	$5,145	$2,751

ASSUMPTION (continued)

BAP officials provided the following summaries of their estimated impact for this proposal. Amounts are in millions of dollars.

Combined by tax year

Tax Year	Current Law Revenue Projection	Proposed Bill Revenue Projection	Difference
2015	$8,765	$9,268	$503
2016	$9,135	$9,273	$138
2017	$9,320	$9,275	($45)
2018	$9,504	$9,392	($112)
2019	$9,689	$9,638	($51)
2020	$9,875	$9,889	$14
2021	$10,063	$10,146	$83
2022	$10,397	$10,410	$12

Combined by fiscal year

Fiscal Year	Difference in Revenue Individual Income Tax	Difference in Revenue Sales Tax	Total Difference
2016	($704)	$1,519	$815
2017	($1,848)	$1,938	$90
2018	($2,119)	$2,069	($50)
2019	($2,278)	$2,208	($70)
2020	($2,360)	$2,353	($7)
2021	($2,446)	$2,507	$61
2022	($2,587)	$2,668	$81
2023	($2,738)	$2,751	$12

ASSUMPTION (continued)

In summary, BAP officials assume this proposal would increase TSR by $12.4 million and reduce General Revenue by $785.1 million once fully implemented. In the first fiscal year, TSR would increase by $815.6 million and General Revenue would increase by $375.0 million.

Officials from the **Department of Revenue (DOR)** assume this proposal would expand the sales tax, in order to reduce individual income tax.

Fiscal impact

DOR officials estimated that an individual income tax rate reduction of one-tenth of one percent would reduce Total State Revenue by approximately $78 million, and stated DOR does not have sufficient data to determine how much additional sales tax could be collected due to the changes in this bill. The requirement that the income tax reduction be rounded to the nearest one-tenth of one percent may mean the sales tax revenue would not entirely make up for the revenue loss from the income tax reduction.

DOR officials noted the proposal would require their organization to reduce the income tax rate so that tax revenue collected by the state remains substantially equal to or greater than the total amount of revenues collected in the prior calendar year; DOR would make adjustments to the rates in tax years 2016, 2017, and 2018. The provisions allow a reduction of no more than one-half of one percent, with the first reduction to be made for 2015. Additional reductions could not be made until 2019.

Beginning in 2019, tax brackets would also be adjusted annually by the increase in inflation. If the Department reduces the highest rate imposed to zero percent, there would be no tax on taxable income.

DOR officials assume Sections 143.011 and 144.005 would create additional contacts due to return corrections because of the rate adjustments, and also assume Collections and Tax Assistance would require two (2) Tax Collection Technicians I (Range 10, Step L) for each 15,000 contacts on both the delinquent and non-delinquent tax lines. Each technician would require CARES equipment and license.

DOR officials assume Withholding Tax would be required to update withholding tables for changes in the tax rate, and would also need to update forms and the online calculator although no FTE would be required.

ASSUMPTION (continued)

DOR officials noted Section 144.014 would eliminate the current state sales tax on food, but local jurisdictions could continue to tax the retail sale of food.

DOR officials noted Section 144.030 would clarify that used motor vehicles, trailers, boats, and outboards would remain subject to sales tax. Other tangible personal property on which sales tax had been previously charged would be exempted from sales tax.

Administrative impact

The Motor Vehicle Bureau would require procedures to be revised by a Management Analyst Specialist I requiring 40 hours of overtime at a cost of $890 in FY 2016. The DOR website would need to be updated, requiring hours of overtime for an Administrative Analyst III at a cost of $240 in FY 2016. Motor Vehicle Bureau testing for identified system modifications would require a total of 40 hours of overtime by a Management Analyst Specialist I at a cost of $890 in FY 2016.

Personal Tax would require changes to forms and programming. Personal Tax would also require two (2) Revenue Processing Technicians I (Range 10, Step L), one for every 19,000 errors and one for every 2,400 pieces of correspondence.

DOR officials assume that, beginning in FY 2017, Sales Tax would require an additional 92 temporary employees that would be eligible for benefits that fiscal year. Training would begin in October 2016. In FY 2018, the 92 temporary employees would still be required, and in FY 2019, 87 temporary employees will be required.

DOR officials assume the Department would need to notify 150,000 businesses of the rate changes. In addition, DOR would require an Economist I (Range 30, Step Q) to establish local tax rates.

Oversight notes the Office of State Treasurer included an economist in the estimate of fiscal impact for that office and will not include an additional economist for DOR.

Notifications to businesses

DOR officials assume this proposal would require the creation and mailing of a notice to businesses at a cost of 55.5 cents per unit. (150,000 x $0.555 = $83,250)

ASSUMPTION (continued)

Burden of proof requirement

DOR officials noted Section 144.017 would require the state to bear the burden of proof for establishing tax liability in all sales tax cases. DOR officials did not provide an estimate of potential fiscal impact for this provision but assumed the General Counsel's Office would, due to increased litigation, require one (1) additional legal counsel (Range 28, Step O) and one (1) paralegal (Range 17, Step M).

Overall, the DOR estimate of administrative impact for this proposal included seven additional permanent full time employees and 92 temporary tax employees; with salaries, benefits, and equipment and expense the estimate totaled $482,714 for FY 2017 and $3,468,318 for FY 2017. The DOR estimate of fully implement impact including the additional permanent employees and temporary tax employees with related benefits and expense totaled $2,803,455.

Oversight has eliminated the Economist position from the DOR estimate and will, for fiscal note purposes only, change the starting salary for the remaining 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 for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted the DOR estimate of equipment and expense in accordance with OA budget guidelines. Finally, Oversight assumes a limited number of additional employees could be accommodated in existing office space.

Oversight assumes the DOR 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 could be reduced by roughly $6,000 per new employee.

ASSUMPTION (continued)

Officials from the **University of Missouri - Economic and Policy Analysis Research Center (EPARC)** provided the following response.

Overview

If enacted, this proposal would include services to be taxed under current sales and use tax law, exempting sales of used merchandise from sales tax except used motor vehicles, boats, motors and trailers. EPARC officials assume sales and use tax collections would increase. In addition, this proposal would provide a reduction in the top tax rate, effective in 2016, 2017 and 2018 as long as “the total tax revenue collected by the state when including the rate reduction would be substantially equal to or greater than the total amount of tax revenue estimated to be collected by the state in the prior taxable year”. Restrictions within the language allow for rate reductions by one-tenth of a percent each year after 2015. Finally, this proposal would postpone tax bracket increases proportional with the CPI adopted within last year’s Senate Bill 509 until 2019.

EPARC officials stated they would assume that collections would increase appropriately, due to the aforementioned increase in sales and use tax collections, to induce the one-tenth reduction in the top tax rate each of these three years.

Tax on Sales and Services

EPARC officials stated that preparing an estimate of sales tax collections on services would require an estimate of the tax base for services in Missouri. Accounting for exempt services as stipulated in this proposal, EPARC officials estimated the tax base on services at $27,454,028,617. EPARC officials then estimated 2016 tax collections on services of $823,620,859.

Individual Income Tax

EPARC officials stated this proposal would reduce the maximum tax rate by one-tenth of a percent each year for the years 2016, 2017 and 2018 as long as “the total tax revenue collected by the state when including the rate reduction would be substantially equal to or greater than the total amount of tax revenue estimated to be collected by the state in the prior taxable year”. EPARC officials prepared their estimates assuming collections would increase appropriately, due to the aforementioned increase in sales and use tax collections, to induce the one-tenth reduction in the top tax rate each of these three years.

ASSUMPTION (continued)

EPARC officials prepared a baseline simulation of the individual income tax for Missouri using 2013 income tax data and existing tax provisions (2013); the simulation indicated Net Tax Due of $5,124,717,000.

* Using the same information and the 5.9% top tax rate on individual income for 2016, the EPARC simulation indicated Net Tax Due of $5,046,952,000, a reduction of $77,765,000 from the baseline year.

* Using the same information and the 5.8% top tax rate on individual income for 2017, the EPARC simulation indicated Net Tax Due of $4,969,588,000, a reduction of $155,129,000 from the baseline year.

* Using the same information and the 5.7% top tax rate on individual income for 2018, the EPARC simulation indicated Net Tax Due of $4,892,563,000, a reduction of $232,154,000 from the baseline year.

Oversight requested additional simulations for the income tax rate reduction and bracket adjustment provisions in this proposal. EPARC officials advised us those projections would be completed as soon as possible but were unable to process that request in time to be included in this fiscal note.

Oversight notes this proposal would provide a one-time rate reduction for 2015 which would be effective in FY 2016 when 2015 tax returns are filed. Other rate reductions would be scheduled for 2016 through FY 2018 based on an analysis of revenues by the Department of Revenue, and for years after FY 2019 but those reductions are subject to a net revenue collection threshold which may or may not occur.

Oversight notes this proposal could eventually lead to the elimination of the individual income tax; however, it is not possible to predict if or when this would happen.

ASSUMPTION (continued)

Local Sales Taxes

EPARC officials noted the proposal includes a requirement for counties and other entities that levy sales taxes to modify their local sales tax base in 2016 to include the items and services included in the new state tax on sales and services. The local governments 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 assumed these provisions would result in neutral impact on local sales tax revenues.

Oversight will assume the EPARC conclusion is correct as to the impact of the proposal on local government sales taxes and will indicate no fiscal impact to local governments. If the courts determine the application of the rate adjustment provisions differently, local governments could have a significant fiscal impact.

Oversight assumptions

Oversight requested additional information regarding the sales tax projections prepared by the **Office of Administration - Division of Budget and Planning (BAP)**, and BAP officials stated their projected growth rate estimates were based on amounts reported by the United States Department of Commerce, Bureau of Economic Analysis (BEA), for National Consumption Expenditures.

Oversight has reviewed the BEA Total Personal Consumption Expenditures by State for Missouri, for 1997-2012, and notes the average annual growth over this period was 4.07% but the weighted average over the last five years was 2.86%. In addition, our review of Missouri personal per capita income over the past ten years indicated annual increases in a range from 3% to 3.65%.

Oversight assumes there would be some growth in sales tax and income tax revenues over time, but does not have any information available to calculate or estimate future revenue trends. For consistency and simplicity Oversight will not include any estimated revenue growth in this fiscal note.

ASSUMPTION (continued)

Oversight is aware that sales tax revenues in the School District Trust Fund are distributed along with other funds to local school districts, but will not include those transfers in this fiscal note.

Oversight notes this proposal would eliminate the current state sales tax on food which would reduce sales tax revenues to the School District Trust Fund, the Conservation Commission Fund, and the Parks and Soil and Water Fund. Oversight will calculate the revenue reduction based on estimated food sales of approximately $10.5 billion.

Estimated Revenue Reduction for Food Sales Tax Exemption

		Estimated Revenue Reduction	
Fund	Sales Tax Rate	Six months FY 2016	Full year
School District Trust	1%	$52,500,000	$105,000,000
Conservation Commission	1/8%	$6,562,500	$13,125,000
Parks, and Soil and Water	1/10%	$5,250,000	$10,500,000

ASSUMPTION (continued)

Oversight will also calculate the estimated additional revenue for sales tax on services using the University of Missouri - Economic and Policy Analysis Research Center estimate of taxable services.

Estimated Additional Revenue for Sales Tax on Services

		Estimated Additional Revenue	
Fund	Sales Tax Rate	Ten months FY 2016	Full year
General Revenue	3%	$686,350,715	$823,620,859
School District Trust	1%	$228,783,572	$274,540,286
Conservation Commission	1/8%	$28,597,946	$34,317,536
Parks, and Soil and Water	1/10%	$22,878,357	$27,454,029

Oversight notes this proposal would impose the burden of proof in all tax dispute matters on the Department of Revenue and will indicate an unknown revenue reduction and unknown additional cost for the Department due to this provision.

Oversight discussed the individual income tax rate provisions with Department of Revenue (DOR) officials; DOR officials stated they assumed the language in the proposal would require DOR to adjust the maximum individual income tax rates in FY 2016, FY 2017, and FY 2018 so that collections would be relatively equal to previous years' collections.

For FY 2016, FY 2017, and FY 2018 **Oversight** will use simulations by EPARC which were prepared for a similar proposal in the previous session (HCS for HB 1967 LR 5663-02) in which EPARC officials noted the baseline individual income tax simulation using individual income tax data from 2012 indicated a baseline Net Tax Due of $5,109,439,000; a second simulation using the same information and a 5% top tax rate on individual income indicated Net Tax Due of $4,336,139,000, which would correspond to a reduction in individual income tax revenues of $773,300,000. A third simulation using the same information and a 4.9% top tax rate on individual income indicated Net Tax Due of $4,265,807,000, which would correspond to a reduction in individual income tax revenues of $843,632,000.

ASSUMPTION (continued)

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 greater than 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.

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

Officials from **St. Louis County** assume this proposal would gradually reduce and ultimately eliminate the state income tax and replace it with a state sales tax. After factoring in a cost of living adjustment, local sales tax rates would be adjusted in 2016 and 2017 to yield the amount of revenue equal to the average revenue for the previous 5 years. Thereafter, the combination of state and local sales taxes could not exceed 10%, unless the excess is approved by voters. The adjustment of sales tax, which would begin in 2016, is likely to cause a reduction in sales tax revenue, particularly if the County's revenue was down during the last 5 years.

Officials from **Mississippi County** assumed this proposal would reduce sales tax revenues for their county.

ASSUMPTION (continued)

Not responding:

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kansas City, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, McDonald, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, Scott, Shelby, St. Charles, St. Louis, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

FISCAL IMPACT - State Government	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented *
GENERAL REVENUE FUND				
Additional revenue				
Reduced timely filing discount	Unknown	Unknown	Unknown	Unknown
Additional revenue				
Sales tax on services	$686,350,715	$823,620,859	$823,620,859	$823,620,859
Cost - STO				
Sales tax rate recalculations				
Salaries	($133,085)	($159,072)	($161,299)	($167,848)
Benefits	($67,880)	($81,456)	($82,271)	($85,611)
Equipment and expense	($25,808)	($2,440)	($2,500)	($2,829)
Total cost	($226,773)	($242,968)	($246,070)	($256,288)
FTE change - STO	3.5 FTE	3.5 FTE	3.5 FTE	3.5 FTE
Cost - DOR				
Temporary employees	$0	($1,478,453)	($1,426,291)	($1,499,046)
Salaries	($141,410)	($157,886)	($159,374)	($167,503)
Benefits	($72,126)	($834,615)	($808,768)	($850,024)
Expense and equipment	($39,777)	($4,958)	($5,082)	($5,750)
Total	($253,313)	($2,475,912)	($2,399,515)	($2,522,323)
FTE change - DOR	6 FTE	6 FTE	6 FTE	6 FTE
Revenue reduction				
Individual income tax changes	($77,765,000)	($773,300,000)	($773,300,000)	($773,300,000)
Revenue reduction				
DOR Burden of proof provision	(Unknown)	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - State Government (Continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented *
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**Could exceed $608,105,629**	**Could exceed $47,601,979**	**Could exceed $47,675,274**	**Could exceed $47,542,248**

* This proposal could lead to the eventual elimination of the individual income tax; however that outcome would depend on growth in other state revenues. Neither the amounts involved nor the time at which this could occur can be predicted at this time.

Estimated Net FTE Effect on General Revenue Fund	9.5 FTE	9.5 FTE	9.5 FTE	9.35 FTE
SCHOOL DISTRICT TRUST FUND				
Additional revenue				
Sales tax on services	$228,783,572	$274,540,286	$274,540,286	$274,540,286
Revenue reduction				
Sales tax exemption on food (six months in FY 2016)	($52,500,000)	($105,000,000)	($105,000,000)	($105,000,000)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$176,286,572**	**$169,540,286**	**$169,540,286**	**$169,540,286**

FISCAL IMPACT - State Government (Continued)	FY 2016 (10 Mo.)	FY 2017	FY 2018	Fully Implemented *
CONSERVATION COMMISSION FUND				
Additional revenue				
Sales tax on services	$28,597,946	$34,317,536	$34,317,536	$34,317,536
Revenue reduction				
Sales tax exemption on food (six months in FY 2016)	($6,562,500)	($13,125,000)	($13,125,000)	($13,125,000)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$22,035,446**	**$21,192,536**	**$21,192,536**	**$21,192,536**
PARKS, AND SOIL AND WATER FUND				
Additional revenue				
Sales tax on services	$22,878,357	$27,454,029	$27,454,029	$27,454,029
Revenue reduction				
Sales tax exemption on food (six months in FY 2016)	($5,250,000)	($10,500,000)	($10,500,000)	($10,500,000)
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**$17,628,357**	**$16,954,029**	**$16,954,029**	**$16,954,029**

FISCAL IMPACT - Local Government	FY 2016 (10 Mo.)	FY 2017	FY 2018
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses and the owners of small businesses could pay lower taxes if this proposal is implemented.

FISCAL DESCRIPTION

This proposal would reduce the state individual income tax rate and replace the current state and local sales and use tax with a state and local sales tax on retail sales of new tangible personal property and taxable services. For the 2015 calendar year, the maximum rate of individual income tax would be lowered to 5.9%. Further rate reductions and the adjustment of the tax brackets for inflation would occur beginning with the 2019 calendar year.

Beginning January 1, 2016, the state individual income tax rate would be reduced each year if the Director of the Department of Revenue determines that total tax revenues collected by the state including the rate reduction are equal to or greater than the total tax revenue collected in the prior year, subject to review and verification by the State Treasurer.

Between January 1, 2016, to January 1, 2018, local sales tax rates would be recalculated to produce reasonably equivalent amounts of revenue to the prior tax rate averaged over the previous five years with the federal Consumer Price Index changes factored in. After that date, the state 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, could not exceed 10% unless the increase is imposed by voters or was the temporary result of the recalculation of local taxes.

Beginning January 1, 2016, there would be no state sales tax on food, but local sales taxes on food would not be prohibited.

FISCAL DESCRIPTION (continued)

The following sales would be exempted from tax: Property purchased to be a component part or ingredient of new tangible personal property to be sold at retail; government purchases including federal, state, and local governments; purchases of inventory; real property transactions; construction of an entirely new building or structure; 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; and purchases by charities.

The proposal would place the burden of proof for establishing tax liability for sales and use tax on the state in all legal proceedings.

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 the State Treasurer
Joint Committee on Administrative Rules
Office of Administration
    Division of Budget and Planning
Department of Revenue
University of Missouri
    Economic and Policy Analysis Research Center

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Assistant Director
February 24, 2015

SS:LR:OD