

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4097-01
Bill No.: HB 1326
Subject: Firearms, Taxation and Revenue - Income, Tax Incentives
Type: Original
Date: February 16, 2018

Bill Summary: This proposal authorizes a tax deduction for the costs of firearm training or firearm safety courses.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|------------|----------------------------|----------------------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| General Revenue | \$0 | (Up to \$4,800,000) | (Up to \$4,800,000) |
| Total Estimated Net Effect on General Revenue | \$0 | (Up to \$4,800,000) | (Up to \$4,800,000) |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|------------|------------|------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| | | | |
| | | | |
| 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 2019 | FY 2020 | FY 2021 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|--|----------|----------|----------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

☒ 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 2019 | FY 2020 | FY 2021 |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume that beginning in tax year 2019, this proposal would allow an individual income tax deduction up to \$500 for individuals who take a firearm training or safety course.

After a thorough search, B&P was unable to determine the number of people who take firearm or safety courses. Therefore, B&P will use the sale of new guns data to estimate the potential number of individual first-time buyers who may elect to take a training or safety course and would thus be eligible for this deduction. B&P notes that not all gun purchasers will take a safety course and that additional individuals who did not purchase a gun may take a safety course. In addition, the cost of a safety course varies; however, the maximum deduction amount was assumed.

In 2016, the FBI conducted 632,319 background checks for gun purchases in Missouri. Based on information from the National Shooting Sports Foundation, 25.8% of all gun purchases are from first time buyers. Assuming all FBI background checks lead to the purchase of a gun, B&P estimates that 163,138 guns were sold to first time buyers. Further, assuming that all first time buyers also attend a training or safety course around the time of purchases, B&P estimates that the total deduction amount that could be claimed would be \$81.6 million (163,188 new gun owners x \$500 maximum deduction allowed). However, because deductions do not reduce Total State Revenue and General Revenue on a dollar for dollar basis, B&P estimates that the loss to Total State Revenue and General Revenue (using a 5.9% tax rate) would be \$4.8 million annually beginning in FY 2020.

Officials at the **Department of Revenue (DOR)** assume that beginning January 1, 2019, the legislation allows taxpayers a deduction of up to \$500 for the cost of eight hours of firearm training completed during the tax year.

In 2016, the FBI conducted approximately 632,500 background checks for gun purchases in Missouri and the National Shooting Sports Foundation estimates that 26 percent of all gun purchases are by first time buyers. Under the assumption that all FBI background checks lead to a gun purchase, the Department estimates that 164,450 guns were sold to first time gun buyers in Missouri. If all first time gun buyers were to attend a firearm training course, and use the full \$500 deduction, the Department estimates that the total deduction amount claimed on Missouri Individual Income tax returns would be \$82.2 million. Because this is an amount deducted from a taxpayer's adjusted gross income, the impact will not be a dollar for dollar reduction. Using the top tax rate of 5.9% percent the Department estimates a negative impact to Total State Revenue

ASSUMPTION (continued)

of \$4.8 million per year (\$82.2 million x 5.9%).

Officials at the **Department of Public Safety's Director's Office** assume there is no fiscal impact from this proposal to their Department.

Oversight asked DPS if they know how many people take firearm training courses each year or the number of courses offered annually across the state. DPS confirmed they do not maintain data on the number of courses or number of people who take these courses annually. The POST Manager however, estimated the cost of a firearm course at \$100.

Oversight notes that starting January 1, 2019, this proposal allows a person to take a firearm education and training course and to receive a deduction against their Missouri adjusted gross income in an amount not to exceed \$500 per year. Oversight notes this proposal is not restricted to first time firearms purchasers.

Oversight notes the changes in this proposal would be effective beginning January 1, 2019, and the first income tax returns would be filed reflecting these changes in January, 2020 (FY 2020). Oversight is aware some filers would reduce their income tax withholding or their estimated tax payments in anticipation of a tax reduction but does not have information as to the impact of those adjustments. For fiscal note purposes, Oversight would include the revenue reductions in the year in which the affected tax returns would be filed; therefore, the first year this proposal would have an impact would be FY 2020.

Oversight checked with several gun ranges around the state and found they offered the following courses for beginners at the following prices:

| Gun Ranges - Location in the State | CCW Course 1 | CCW Course 2 |
|------------------------------------|--------------|---------------|
| Cole County | \$110 | \$75 |
| Greene County | \$70 | Not Available |
| Jackson County | \$100 | \$200 |
| St. Louis | \$125 | \$200 |

ASSUMPTION (continued)

Oversight is not able to determine the number of people who take firearm courses each year. Using the estimates of first time buyers of firearms, and the cost of a beginners course we are able to estimate how much the possible deduction to the state could be if a certain percentage of those buyers took the courses.

| % of First Time Buyers of Firearms taking Firearms Courses (163,138) | Cost to State - If each person only takes the beginning CCW 1 Course for \$100 (people x \$100 x 5.9%) | Cost to State - If each person took enough courses to equal the full \$500 Deduction (people x \$500 x 5.9%) |
|--|--|--|
| 25% - 40,785 | \$240,632 | \$1,203,158 |
| 50% - 81,569 | \$481,257 | \$2,406,286 |
| 75% - 122,354 | \$721,889 | \$3,609,443 |
| 100% - 163,138 | \$962,514 | \$4,812,571 |

Oversight will show the impact as Up to the \$4,800,000 full amount if all first time buyers take maximum number of courses.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials from the **Office of the Secretary of State (SOS)** state 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 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, the SOS also recognizes 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 the office can sustain with the core budget. Therefore, the SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

| <u>FISCAL IMPACT - State Government</u> | FY 2019 (10 Mo.) | FY 2020 | FY 2021 |
|--|-------------------------|---------------------------------------|---------------------------------------|
| GENERAL REVENUE | | | |
| <u>Revenue Reduction</u> - \$500 deduction against AGI allowed for firearms training courses | <u>\$0</u> | (Up to <u>\$4,800,000</u>) | (Up to <u>\$4,800,000</u>) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>\$0</u> | (Up to <u>\$4,800,000</u>) | (Up to <u>\$4,800,000</u>) |
| <u>FISCAL IMPACT - Local Government</u> | FY 2019 (10 Mo.) | FY 2020 | FY 2021 |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT - Small Business

Small businesses that teach firearms training may see an increase in participants.

FISCAL DESCRIPTION

Beginning January 1, 2019, this bill authorizes an individual income tax deduction of up to \$500 per taxpayer for the cost of up to eight hours of firearm education and training courses or firearm safety courses that teach proper and safe firearm handling.

The provisions of this bill will expire on December 31 six years after 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 Public Safety
Department of Revenue
Joint Committee on Administrative Rules
Office of Administration
Division of Budget and Planning
Office of the Secretary of State

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope", with a stylized flourish at the end.

Acting Director
February 16, 2018