

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5159-03  
Bill No.: Perfected HCS for HB 1802  
Subject: Taxation and Revenue - General, Taxation and Revenue - Sales and Use,  
Economic Development, Business and Commerce, Administrative Law  
Type: Original  
Date: March 12, 2018

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Bill Summary: This proposal changes the law regarding exemptions of sale taxes by clarifying a definition to exempt the productions of communication services.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Conservation Commission	(Unknown)	(Unknown)	(Unknown)
Parks, Soil & Water	(Unknown)	(Unknown)	(Unknown)
School District Trust	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 6 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ 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
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Department of Revenue** estimates an unknown fiscal impact.

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would reaffirm multiple MO Supreme Court rulings with regard to the manufacturing sales tax exemption. B&P notes, however, that the list includes the Bridge Data ruling in 1990, but not the subsequent IBM ruling in 1997 that overturned Bridge Data. Therefore, the inclusion of this case could expand the manufacturing sales tax exemption to businesses that would not have qualified prior to the MO Supreme Court IBM ruling in 2016.

B&P estimates that this proposal will have an unknown negative impact to Total State Revenue, General Revenue and other state funds. This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Conservation** assume an unknown negative fiscal impact but greater than \$100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43(a) of the Missouri Constitution. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials at the **Department of Natural Resources** assume this proposal creates a state and local sales tax exemption for production of communications services. The Department's 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. Therefore, any additional state and local sales tax exemption could be a loss to the Parks and Soils Sales Tax Funds.

In response to the previous version, officials at the **City of Kansas City** assumed by redefining the term "product" to include telecommunication services and "manufacturing" to include electronic transmissions, additional sales tax exemptions are being proposed. In general, increasing the number of sales tax exemptions has a negative fiscal impact on the City because it limits the City's ability to collect sales tax. Kansas City is unable to estimate the loss in sales tax revenue.

In response to the previous version, officials at **St. Louis County** assumed revenues from local sales and use taxes will be reduced in an unknown amount.

In response to the previous version, officials at the **Lathrop School District** assumed that if taxes are cut it will impact the state tax income the school district gets.

ASSUMPTION (continued)

In response to the previous version, officials at the **City of Springfield** assumed a negative fiscal impact of more than \$4.7 million.

In response to the previous version, officials at the **Wellsville-Middletown R-I** and the **Summersville R-II School Districts** each assumed this proposal will have a negative fiscal impact on the district.

In response to the previous version, officials at the **Kirksville R-III School District** assumed a negative fiscal impact on the district.

In response to the previous version, officials at the **West Plains School District** assumed this would have a negative fiscal impact on the district.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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**GENERAL REVENUE**

<u>Revenue Reduction</u> - potential expansion of sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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**CONSERVATION COMMISSION FUND**

<u>Revenue Reduction</u> - potential expansion of sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2019 (10 Mo.)	FY 2020	FY 2021
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**PARKS, SOIL & WATER FUND**

<u>Revenue Reduction</u> - potential expansion of sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON PARKS, SOIL &amp; WATER FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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**SCHOOL DISTRICT TRUST FUND**

<u>Revenue Reduction</u> - potential expansion of sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
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**LOCAL POLITICAL SUBDIVISIONS**

<u>Revenue Reduction</u> - potential expansion of sales tax exemptions	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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FISCAL IMPACT - Small Business

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

### FISCAL DESCRIPTION


This bill exempts the production and transmission of telecommunications services, as well as the services themselves, from any state and local sales and use taxes. The bill also overrides the judicial opinion IBM Corporation v. Director of Revenue, 491 S.W.3d 535 (Mo. banc 2016) to the extent it is inconsistent with the prior decisions Southwestern Bell Telephone Company v. Director of Revenue, 78 S.W.3d 763 (Mo. banc 2002) and Southwestern Bell Telephone Company v. Director of Revenue, 182 S.W.3d 226 (Mo. banc 2005).

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 Natural Resources  
Department of Conservation  
Department of Revenue  
Lathrop School District  
Office of Administration  
Division of Budget and Planning  
City of Kansas City  
City of Springfield  
West Plains School District  
Kirksville R-III School District  
Summersville R-II School District  
Wellsville-Middletown R-I School District

Ross Strobe



Acting Director  
March 12, 2018