

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0071-01  
Bill No.: HB 823  
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; County Government; Construction and Building Codes  
Type: Original  
Date: April 1, 2019

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Bill Summary: This proposal exempts certain counties from state and local sales and use tax on certain building supplies.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$92,782)	(\$141,204)	(\$141,537)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$92,782)</b>	<b>(\$141,204)</b>	<b>(\$141,537)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
School District Trust (0688)	(\$16,000)	(\$32,000)	(\$32,000)
Conservation Commission (0609)	\$0 to (\$2,000)	\$0 to (\$4,000)	\$0 to (\$4,000)
Parks, Soil & Water (0613 & 0614)	\$0 to (\$2,000)	\$0 to (\$3,000)	\$0 to (\$3,000)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>(\$16,000 to \$20,000)</b>	<b>(\$32,000 to \$39,000)</b>	<b>(\$32,000 to \$39,000)</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<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 2020	FY 2021	FY 2022
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</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 2020	FY 2021	FY 2022
<b>Local Government</b>	<b>(\$30,000)</b>	<b>(\$60,000)</b>	<b>(\$60,000)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume beginning January 1, 2020 and for five years, this proposal would exempt certain building supplies from certain state and local sales taxes if purchased for the construction of an unattached single-family home within Perry County up to \$250,000 per each constructed building.

Building supplies are defined as materials that will be permanently fixed to a building and used directly in construction. B&P notes that this would include lumber, internal fixtures, external fixtures, plumbing, electricity, etc. This would not apply to materials used in things such as landscaping or driveways.

B&P notes that while the sales tax exemption would be limited to the purchases made for single-family homes constructed within Perry County, there is no restriction placed on where the materials could be purchased. For the purpose of this fiscal note, B&P will assume that all sales will occur within Perry County. However, it is likely that these tax exempt sales will occur in other counties, thus reducing other jurisdictions' local sales tax revenue.

B&P further notes that this proposal would only exempt state sales taxes authorized under Section 32.085 and Chapter 144. This would exempt purchases from the 3% sales tax that would otherwise be deposited into GR and the 1% sales tax that would otherwise be deposited into the School District Trust Fund. This would not exempt purchases from the 0.125% (Conservation Commission) and 0.1% (DNR – Parks, Soil, and Water) Constitutional sales taxes. Therefore, B&P will reflect the cost to the two constitutional funds as \$0 or the amounts on the next page.

Based on building permit data from the United States Census Bureau, there were 39 single-family permits issued with a total housing value of \$7,792,326 in Perry County during 2017 (the most recent year complete data is available). Based on this information, B&P estimates that the average value of each home constructed in Perry County during 2017 was \$199,803.

In addition, using 2017 construction costs data published by the National Association of Home Builders (NAHB) B&P estimates that 40.9% of the final sales price per single-family home consists of the use of materials permanently fixed to such residential structures.

Based on the above information, B&P estimates that this proposal would exempt \$81,789 (\$199,803 avg value of new single-family home x 40.9% direct materials used) in materials purchased per single-family construction. Therefore, B&P estimates that this proposal would

ASSUMPTION (continued)

exempt \$3,189,769 (\$81,789 per construction exemption x 39 single-family permits issued) in sales of qualifying building materials.

B&P estimates that this proposal will reduce TSR by \$128,000 or \$135,000 from tax year 2020 through tax year 2025. Table 1 shows the state and local impacts by tax year.

Table 1: Impact by Tax Year

Fund	TY 20 through TY 25	
	Low	High
GR Loss (3% tax)	\$96,000	\$96,000
Ed Loss (1% tax)	\$32,000	\$32,000
MDC (0.125%)	\$0	\$4,000
DNR (0.1%)	\$0	\$3,000
State Loss	\$128,000	\$135,000
Perry County Loss (1.857% tax)	\$60,000	\$60,000

However, because this sales tax exemption would begin and end in the middle of a fiscal year, B&P estimates that this proposal will reduce Total State Revenue by \$64,000 or \$68,000 and General Revenue by \$48,000 during FY 2020 and FY 2026. This proposal will reduce Total State Revenue by \$128,000 or \$135,000 and General Revenue by \$96,000 during FY 2021 through FY 2025. Table 2 shows the state and local impacts by fiscal year.

Table 2: Impact by Fiscal Year

Fund	FY20		FY21 through FY 25		FY26	
	Low	High	Low	High	Low	High
GR Loss (3% tax)	\$48,000	\$48,000	\$96,000	\$96,000	\$48,000	\$48,000
Ed Loss (1% tax)	\$16,000	\$16,000	\$32,000	\$32,000	\$16,000	\$16,000
MDC (0.125%)	\$0	\$2,000	\$0	\$4,000	\$0	\$2,000
DNR (0.1%)	\$0	\$2,000	\$0	\$3,000	\$0	\$2,000
State Loss	\$64,000	\$68,000	\$128,000	\$135,000	\$64,000	\$68,000
Perry County Loss (1.857% tax)	\$30,000	\$30,000	\$60,000	\$60,000	\$30,000	\$30,000

This proposal will impact the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

**Oversight** will use B&P estimates in the fiscal note.

Officials at the **Department of Revenue (DOR)** assume that beginning on January 1, 2020, and continuing for a period of five years, subject to the provisions of subsection 3 of this section, purchases of building supplies for the construction of unattached single-family residences within any eligible county are hereby specifically exempted from all state and local sales and use tax including, but not limited to, sales and use tax authorized or imposed under Section 32.085 and Chapter 144.

The Department is unable to give an exact estimate for this because there is no way for the Department to predict how many houses would be built if this proposed legislation passes.

Per a 2017 survey completed in 2017 by the United States Census Bureau, there were approximately 39 single-family housing permits in Perry County. These 39 single-family houses had a value of \$7,792,326 per the same survey. The Department believes, then, that the average value of one single family home equals \$199,803 ( $\$7,792,326 / 39$ ).

Per a publication titled; "Single Family Price and Cost Breakdown – 2017 National Results," published by the National Association of Home Builders, the percent of expenditures directly associated with building supplies equals 40.9 percent. The Department estimates that, per each home, \$81,720 would be exempt from state and local sales tax ( $\$199,803 \times 40.9\%$ ).

If \$81,720 were exempt for all 2017 single family home building permits in 2017 for Perry County, Missouri, the total dollar amount exempt from taxation would equal \$3,187,080 ( $\$81,720 \times 39$ ).

When the total dollar amount exempt from taxation is applied to the state sales tax rate, 4.225%, the state of Missouri could estimate revenues decreasing by \$134,654 each fiscal year for five years, other than FY 2020, in which half of the fully implemented impact would occur.

ASSUMPTION (continued)

State Impact to Specific Funds					
Fiscal Year	Fund				
	General Revenue	Conservation	Education	Parks and Soils	Total
2020	(\$47,802.22)	(\$2,019.81)	(\$16,158.50)	(\$1,346.54)	(\$67,327.07)
2021	(\$95,604.43)	(\$4,039.62)	(\$32,316.99)	(\$2,693.08)	(\$134,654.13)
2022	(\$95,604.43)	(\$4,039.62)	(\$32,316.99)	(\$2,693.08)	(\$134,654.13)
2023	(\$95,604.43)	(\$4,039.62)	(\$32,316.99)	(\$2,693.08)	(\$134,654.13)
2024	(\$95,604.43)	(\$4,039.62)	(\$32,316.99)	(\$2,693.08)	(\$134,654.13)
2025	(\$95,604.43)	(\$4,039.62)	(\$32,316.99)	(\$2,693.08)	(\$134,654.13)

When the total dollar amount exempt from taxation is applied to Perry County's tax rate (1.875%), Perry County could estimate revenues decreasing by \$59,758 each fiscal year for five years, other than FY 2020, in Perry County could experience a decrease in revenue at half of the fully implemented amount (\$59,758).

DOR's Tax Exemption Processing Section would require 1 Revenue Processing Technician I (\$24,360) for the anticipated increase in sales/use tax exemption applications and the anticipated increased in phone calls inquiring about the exemption.

**Oversight** will show the DOR FTE in the fiscal note.

Officials at the **Department of Conservation** assume an unknown fiscal impact that could be 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. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

In response to similar legislation filed this year, officials at the **Department of Natural Resources** assumed 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. Any increase in sales tax collected could increase revenue to the Parks and Soils Sales Tax Funds. The Department assumes any increase in revenue to the Parks and Soils Sales Tax fund would be used for the purposes established in Article IV Section 47(a) of the Missouri Constitution.

ASSUMPTION (continued)

The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

**Oversight** notes that Article IV, Section 47 of the Missouri Constitution, allows revenue received from an additional sales tax of one-tenth (1/10) of percent (1%) to be used for the conservation and management of the soil and water resources of Missouri and for the proper management of the state parks. The Parks Sales Tax Fund (0613) and the Soil and Water Sales Tax Fund (0614) each are to receive 50% of this additional sales tax funding.

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

**Oversight** assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

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 SOS for Administrative Rules is less than \$5,000. 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 require additional resources.

Officials at **Perry County** did not respond to Oversight's request for fiscal impact.

**Oversight** notes this proposal does not restrict where the building materials may be purchased and therefore several local jurisdictions may be impacted by the proposal. For the simplicity of the fiscal note, Oversight will show all the supplies purchased in Perry County and only Perry County funds being impacted.

ASSUMPTION (continued)

**Oversight** notes that it is unclear if the constitutionally-created Conservation Commission sales tax and the Parks, Soil & Water sales tax could be exempted by the statutory changes offered in this proposal. Oversight will show the loss to these two funds as \$0 (statute can not exempt these constitutionally created sales taxes) to the estimate provided by B&P.

**Oversight** currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

**Oversight** notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (6 Mo.)	FY 2021	FY 2022
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction - DOR §144.528</u>			
Perry County building supplies sales tax exemption	(\$48,000)	(\$96,000)	(\$96,000)
<u>Cost - DOR §144.528</u>			
Personal Service	(\$20,300)	(\$24,604)	(\$24,850)
Fringe Benefits	(\$16,695)	(\$20,109)	(\$20,184)
Equip & Exp	(\$7,787)	(\$491)	(\$503)
<u>Total Cost - DOR</u>	<u>(\$44,782)</u>	<u>(\$45,204)</u>	<u>(\$45,537)</u>
FTE Change 1 FTE	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$92,782)</u></b>	<b><u>(\$141,204)</u></b>	<b><u>(\$141,537)</u></b>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE



FISCAL IMPACT - State Government

FY 2020  
 (6 Mo.)

FY 2021

FY 2022

**SCHOOL DISTRICT TRUST FUND**

Revenue Reduction - DOR §144.528  
 Perry County building supplies sales tax  
 exemption

(\$16,000)

(\$32,000)

(\$32,000)

**ESTIMATED NET EFFECT ON THE  
 SCHOOL DISTRICT TRUST FUND**

**(\$16,000)**

**(\$32,000)**

**(\$32,000)**

**CONSERVATION COMMISSION  
 FUNDS**

Revenue Reduction - DOR §144.528  
 Perry County building supplies sales tax  
 exemption

\$0 to (\$2,000)

\$0 to (\$4,000)

\$0 to (\$4,000)

**ESTIMATED NET EFFECT ON  
 CONSERVATION COMMISSION  
 FUNDS**

**\$0 to (\$2,000)**

**\$0 to (\$4,000)**

**\$0 to (\$4,000)**

**PARKS, SOIL & WATER FUNDS**

Revenue Reduction - DOR §144.528  
 Perry County building supplies sales tax  
 exemption

\$0 to (\$2,000)

\$0 to (\$3,000)

\$0 to (\$3,000)

**ESTIMATED NET EFFECT ON  
 PARKS, SOIL & WATER FUNDS**

**\$0 to (\$2,000)**

**\$0 to (\$3,000)**

**\$0 to (\$3,000)**

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (6 Mo.)	FY 2021	FY 2022
<b>PERRY COUNTY FUNDS</b>			
<u>Revenue Reduction</u> - Perry County §144.528 building supplies sales tax exemption	<u>(\$30,000)</u>	<u>(\$60,000)</u>	<u>(\$60,000)</u>
<b>ESTIMATED NET EFFECT ON PERRY COUNTY FUNDS</b>	<b><u>(\$30,000)</u></b>	<b><u>(\$60,000)</u></b>	<b><u>(\$60,000)</u></b>

FISCAL IMPACT - Small Business

Small contractors and small businesses inside Perry County would be impacted by exempting certain building supplies from sales tax.

FISCAL DESCRIPTION

This bill provides a state and local sales and use tax exemption beginning January 1, 2020, and continuing for 5 years, for building supplies used for the construction of unattached single-family residences in Perry County. The exemption only applies to purchase amounts up to \$250,000 per each unattached single-family residence.

The Department of Revenue shall design and publish an application for a taxpayer to receive a sales and use tax exemption letter to be used when purchasing the building supplies.

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 Conservation  
Department of Natural Resources  
Department of Revenue  
Joint Committee on Administrative Rules  
Office of Administration Division of Budget and Planning  
Office of the Secretary of State



Kyle Rieman  
Director  
April 1, 2019

Ross Strobe  
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April 1, 2019