

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1716-01  
Bill No.: HB 747  
Subject: Taxation and Revenue - Sales and Use; Taxation and Revenue - General; Health Care; Children and Minors  
Type: Original  
Date: March 4, 2019

Bill Summary: This proposal changes the laws regarding the taxation of feminine hygiene products, diapers, and incontinence products.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(\$17,744,782 to \$28,444,782)	(\$21,245,204 to \$34,145,204)	(\$21,245,537 to \$34,145,537)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$17,744,782 to \$28,444,782)</b>	<b>(\$21,245,204 to \$34,145,204)</b>	<b>(\$21,245,537 to \$34,145,537)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would reduce the state sales tax rate for diapers and feminine hygiene products from the current rate of 4.225% to the same rate as the levy on food beginning October, 1 2019. B&P notes that the state levy on food is equal to 1.225% and does not include the 3% tax that would otherwise be deposited into General Revenue.

#### **Diaper (Child) Sales Tax Reduction**

Based on research, B&P found that the average amount spent on diapers was \$550 to \$840 per year. Based on information from the University of Michigan Hospital, the average age until children are toilet trained is 2.5 years. Based on information provided by DHSS, the average number of births from 2015-2017 was 74,241. Therefore, B&P estimates total sales of \$102.1 million (74,241 children x 2.5 years x \$550) up to \$155.9 million (74,241 children x 2.5 years x \$840) may be impacted by this proposal. B&P estimates that eliminating the General Revenue portion of the state sales tax, would reduce Total State Revenue and General Revenue by \$3.1 million to \$4.7 million annually.

#### **Diaper (Adult) Sales Tax Reduction**

According to research completed by the CDC, approximately 25% of adults age 65 and up had moderate to severe urinary incontinence and 8% had moderate to severe bowel incontinence. B&P notes that according the United State Census 2017 population estimates there were approximately 956,032 individuals residing in Missouri age 65 and over. Therefore, B&P estimates that approximately 239,008 individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 76,483 individuals residing in Missouri age 65 and over would utilize adult bowel incontinence diapers.

Based on information from a budgeting website, the average cost for urinary incontinence diapers is \$160 to \$240 per month, for a yearly cost of \$1,920 to \$2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is \$60 to \$180 per month, for a yearly cost of \$720 to \$2,160. Therefore, B&P estimates that total annual sales for urinary incontinence adult diapers would be approximately \$458.9 million (239,008 people x \$1,920 annual cost) up to \$688.3 million (239,008 people x \$2,880 annual cost). The total annual sales for bowel incontinence adult diapers would be \$55.1 million (76,483 people x \$720 annual cost) up to \$165.2 million (76,483 people x \$2,160 annual cost). B&P estimates that eliminating the General Revenue portion of the state sales tax, would reduce Total State Revenue and General Revenue by \$15.4 million to \$26.6 million annually.

ASSUMPTION (continued)

**Feminine Hygiene Products**

Based on information from multiple sites, B&P estimates that women purchase an average of 6.7 boxes of tampons and 1.7 boxes of pads and liners per year, with an average price of \$7 to \$10 per box. B&P was also able to determine that the average age for menstruation is 13-51, and based on data provided by the U.S. Census bureau, there are approximately 1.5 million woman between those ages residing in Missouri. Therefore, B&P estimates total sales of \$89.0 million and \$127.2 million may be impacted by this proposal. B&P estimates that reducing the sales tax rate on feminine hygiene products will reduce General Revenue and Total State Revenue by \$2.7 million to \$3.8 million annually.

**Summary**

B&P estimates that this proposal will reduce Total State Revenue and General Revenue by \$17.7 million to \$28.4 million during FY 2020. Once fully implemented in FY 2021, this proposal will reduce Total State Revenue and General Revenue by \$21.2 million to \$34.1 million annually.

Table 1: TSR/GR Reduction by Provision (figures in Millions)

Provision	FY 2020		FY 2021	
	Low	High	Low	High
Diapers - Child	(\$2.6)	(\$3.9)	(\$3.1)	(\$4.7)
Diapers - Adult	(\$12.8)	(\$21.3)	(\$15.4)	(\$25.6)
Feminine Hygiene	(\$2.3)	(\$3.2)	(\$2.7)	(\$3.8)
TSR/GR Loss	(\$17.7)	(\$28.4)	(\$21.2)	(\$34.1)

**Oversight** will show B&P's estimates in the fiscal note.

Officials at the **Department of Revenue (DOR)** assume that in §144.016, beginning October 1, 2019, the tax levied and imposed under Chapter 144 on all retail sales of feminine hygiene products, diapers, and incontinence products shall be levied at a rate that shall not exceed the sales tax levied on the retail sale of food.

Based on a study done by TaxFoundation, if New York was to exempt feminine hygiene products from sales tax, the state would lose approximately \$10 million each year. New York's sales tax rate is 4 percent. If the \$10 million was divided by 4 percent, the estimated total amount of sales for feminine products in New York would be \$250 million. Missouri's population is roughly 6 million while New York's population is roughly 19 million. Missouri has 31 percent of the population of New York. If the total sales in New York was multiplied by 31 percent, total sales

ASSUMPTION (continued)

in Missouri could be estimated at \$77.5 million. These items are currently taxed at 4.225%; Missouri is receiving an estimated \$3,274,375 in sales tax from the purchase of feminine products. If this proposed legislation was implemented and only 1 percent (plus required .225%) was collected in sales tax, the state would collect \$949,375.

The Department believes that the average amount spent on diapers per year is \$700. The average child, per "allgov.com" would wear diapers for 3 years before becoming fully toilet trained. Based on the Department of Health and Senior Services, the average number of births from 2014-2016 was 74,937. Subsequently, the Department estimates that total sales would amount to \$157,367,700. Therefore, the Department estimates that General Revenue and Total State Revenue would be reduced by an estimated \$1,927,754 each year.

According to the CDC, approximately 25 percent of adults within the age of 65 and up had moderate to severe urinary incontinence and 8 percent had moderate to severe bowl incontinence. According the United State Census 2016 population, 987,012 individuals residing in Missouri were 65 or over. Therefore, the Department estimates that approximately 244,503 individuals aged 65 and over would utilize adult urinary incontinence diapers. The Department estimates that approximately 78,241 individuals residing in Missouri and aged 65 and over would utilize adult bowl incontinence diapers. The average cost for urinary incontinence diapers is \$200 per month for a yearly cost of \$2,400. The average monthly bowl incontinence diapers is \$120 per month for a yearly cost of \$1,440. Subsequently, the Department estimates total sales of urinary incontinence diapers to amount to \$586,807,200 and total sales of bowl incontinence diapers to be \$112,667,040. The total sales of both incontinence diapers would amount to \$699,474,240. At the proposed rate, the Department estimates that General Revenue and Total State Revenue would decrease by an estimated \$8,568,559.44 each year.

The Department shows a lesser loss to General Revenue in Fiscal Year 2020 because there are three months in Fiscal Year 2020 in which feminine products would remain applicable to have the full amount of state sales tax collected.

FISCAL YEAR	IMPACT
FY 2020	(\$8,584,266)
FY 2021	(\$11,445,688)
FY 2022	(\$11,445,688)

DOR Sales Tax Section requires 1 Revenue Processing Technician I (\$24,360) for the additional correspondence anticipated.

ASSUMPTION (continued)

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

Officials at the **University of Missouri Economic & Policy Analysis Research Center (EPARC)** assume this proposal would lower the sales tax rate for feminine hygiene products, diapers and incontinence products from 4.225% to 1.225%, the same sales tax rate as food. This response used data from the Census Bureau, Bureau of Economic Analysis and the Center for Disease Control.

We estimate there are 1,811,945 women between the ages of 12 and 54 in the state of Missouri. We estimate that these women on average spend \$14.67 annually on feminine hygiene products. Multiplying 1,811,945 by \$14.67 we estimate Missourians spend \$26,583,222 in feminine hygiene products annually. Reducing the tax rate by 3% would reduce tax collections for these products by \$797,497.

We estimate there are 27.4 billion disposable diapers used in the United States. At an average of \$0.21 per diaper, this amounts to \$5.72 billion. Using population statistics we estimate Missourians purchase approximately \$107,441,430 in diapers. Reducing the tax rate by 3% would reduce tax collections for these products by \$3,223,243.

We estimate there are 244,000 Missourians who suffer from incontinence. At an annual average cost of \$473.20, we estimate these Missourians spend a total of \$115,461,434. Reducing the tax rate by 3% would reduce tax collections for these products by \$3,463,843.

Conclusion: We estimate a sales tax reduction of 3% for feminine hygiene products, diapers and incontinence products will reduce Net General Revenue by \$7,484,582.

Officials at the **Department of Conservation (MDC)** assume that an unknown 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. Any change in sales and use tax collected would affect 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.

ASSUMPTION (continued)

Officials at the **Department of Natural Resources (DNR)** assume that creating a change in the taxation of feminine hygiene products, diapers, and incontinence products at a rate not to exceed the sales tax levied on the retail sale of food could decrease the amount of funding available in the Parks and Soils Sales Tax Funds for long term operation of Missouri's state parks and historic sites and assistance to agricultural landowners through volunteer programs.

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, the sales tax exemption could result in an unknown loss to the Parks and Soils Sales Tax Funds.

**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.

**Oversight** notes this proposal would reduce the tax rate from 4.225% to 1.225% on diapers, feminine hygiene products and incontinence products. Therefore, it would allow DNR and MDC to retain their funding and would be a loss only to General Revenue of its 3%.

**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 (9 Mo.)	FY 2021	FY 2022
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - DOR §144.016			
sales tax reduction on diapers, feminine hygiene and incontinence products	(\$17,700,000 to \$28,400,000)	(\$21,200,000 to \$34,100,000)	(\$21,200,000 to \$34,100,000)
<u>Cost</u> - DOR §144.016			
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</u> -	<u>(\$44,782)</u>	<u>(\$45,204)</u>	<u>(\$45,537)</u>
FTE Change - 1	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>(\$17,744,782 to <u>\$28,444,782</u>)</b>	<b>(\$21,245,204 to <u>\$34,145,204</u>)</b>	<b>(\$21,245,537 to <u>\$34,145,537</u>)</b>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2020 (9 Mo.)	FY 2021	FY 2022
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that sell diapers and these products could be impacted.



FISCAL DESCRIPTION

Beginning October 1, 2019, this bill reduces the state sales and use tax rate on retail sales of feminine hygiene products, diapers, and incontinence products to equal the reduced state sales tax rate imposed on the retail sale of food.

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  
Office of Administration Division of Budget and Planning  
University of Missouri Economic & Policy Analysis Research Center



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March 4, 2019

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