

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3604-02  
Bill No.: HB 1967  
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use;  
Department of Revenue  
Type: Original  
Date: February 11, 2020

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Bill Summary: This proposal implements the Streamlined Sales and Use Tax Agreement.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	(\$7,040,068)	\$1,514,455	\$1,495,945
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$7,040,068)</b>	<b>\$1,514,455</b>	<b>\$1,495,945</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Streamlined Sales And Use Tax Agreement Fund	\$47,508,425- \$72,582,317	\$97,967,609 - \$149,672,736	\$103,409,793 - \$157,987,185
Conservation Commission	\$1,532,514- \$2,316,073	\$3,157,240- \$4,773,025	\$3,327,308 - \$5,032,852
Park, Soil, and Water	\$1,226,012- \$1,852,859	\$2,525,791 - \$3,818,419	\$2,661,846 - \$4,026,281
School District Fund	\$383,006	\$766,012	\$766,012
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$50,649,957- \$77,134,255</b>	<b>\$104,416,652- \$159,030,192</b>	<b>\$110,164,959- \$167,812,330</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 26 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<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>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	40 FTE	40 FTE	40 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>40 FTE</b>	<b>40 FTE</b>	<b>40 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>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<b>Local Government</b>	<b>\$30,864,714- \$56,617,690</b>	<b>\$64,356,724- \$117,462,199</b>	<b>\$69,946,302 - \$126,001,831</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from **Department of Revenue (DOR)** and **Office of Administration Budget and Planning (B&P)** worked together on the fiscal impact of this proposal and state:

#### Section 32.070 Streamlined Sales and Use Tax Agreement (SSUTA) Fund

This proposal creates the Streamlined Sales and Use Tax Agreement Special Fund. The fund is to receive all revenue generated from the streamlined sales and use tax agreement that exceeds the amount of revenue that would have been collected if the streamlined sales and use tax agreement act were not in effect. The money in the fund is to be used to pay for outstanding transportation bond debt.

The **B&P** notes Subsection 32.070.2 requires that all revenue generated under SSUTA be deposited into the newly created “Streamlined Sales and Use Tax Agreement Special Fund”. For the purpose of this fiscal note, B&P assumes that only the 1% School District Trust Fund tax would be diverted to GR as both the Conservation and DNR sales taxes are constitutional.

Subsection 32.070.7 would sunset Section 32.070 five years after the effective date. B&P assumes that if this provision were allowed to sunset, Missouri would leave the SSUTA. B&P notes however, that the remittance of sales taxes from out-of-state vendors is required under Sections 144.021 and 144.565. Therefore, revenue collections will not cease if Missouri left the SSUTA. Instead, monies diverted to the Streamlined Sales and Use Tax Agreement Special Fund would instead be deposited into GR and the School District Trust Fund.

The DOR and B&P will indicate the fiscal impact to this fund in the discussion of the revenue received later in this response.

#### Section 32.086 DOR 1% Collection Fee

This section allows the Department to retain one percent of all local sales and use tax remitted by a political subdivision or taxing jurisdiction, unless a greater amount is specified in the local sales and use tax law.

In fiscal year 2019, the Department collected \$152,819,685 in sales tax from special taxing districts (TDDs, CIDs, Port Improvement Districts). Currently, the Department does not retain any amount of sales tax collections from these special taxing districts.

ASSUMPTION (continued)

If the Department were to retain one percent of the sale tax collections of these special taxing districts, general revenue may increase by an estimated \$1,528,197 per year starting January 1, 2021. Therefore there will be 6 months of collection in FY 2021.

2019		Gross Distribution	Projected 1% DOR fee
CID	Sales	\$70,394,092.82	\$703,940.93
TDD	Sales	\$80,851,433.07	\$808,514.33
PID	Sales	\$214,486.98	\$2,144.87
CID	Use	\$1,316,322.40	\$13,163.22
TDD	Use	\$0.00	\$0.00
PID	Use	\$43,349.48	\$433.49
<b>TOTAL</b>		<b>\$152,819,685</b>	<b>\$1,528,197</b>

Section 32.087 Local Political Subdivisions Language

This provision modifies when sales tax is imposed and the ballot language for approving a sales tax increase or decrease. It changes the effective date of sales tax rate changes, with decreases beginning immediately and increases going into effect after the first billing period.

The Department's excise tax section will need 1 FTE to handle the rate changes that effect motor fuel refunds and will require programming changes.

Sections 66.620 – 94.900 & 184.845 – 644.032 Local Taxing Jurisdictions

Throughout these sections the references to the 1% DOR collection fee and references to the effective date of sales tax rates are updated to refer to Sections 32.086 & 32.087. These changes are not expected to have any additional fiscal impact from what is stated above.

Additionally, these sections require the notification of sales tax rate changes to the Department. The Department assumes no fiscal impact from these changes.

Section 32.087-94.900, 114.010-144.032, 144.054-144.285, 144.600-644.032 SSUTA Changes

These sections enter Missouri into the Streamlined Sales and Use Tax Agreement (SSUTA). This would allow Missouri the ability to collect sales tax from out-of-state sellers.

ASSUMPTION (continued)

Administrative Impact

Excise Tax

Two Revenue Processing Technicians for return processing and correspondence.

Sales Tax

The Department does not envision an FTE impact for the Sales Tax area, but rule writing will create a significant impact which will require Management Analyst Specialist I.

Integrated Tax System

The integrated tax system incurs additional costs of \$676,000 to implement the provisions of this legislation

144.021 & 144.565 Out-of-State Sellers Sales Tax & Marketplace Facilitators

OA-Budget and Planning (**B&P**) and the Department of Revenue (**DOR**) worked together to estimate the potential revenue gains from the U.S. Supreme Court *Wayfair* decision, which overturned the *Quill* decision and held that states may charge a tax on purchases made from out-of-state sellers, even if the seller doesn't have a physical presence in the taxing state. In November 2017, the U.S. Government and Accountability Office (GAO) released state-by-state estimates for potential revenue gains if the 1992 *Quill* decision were overturned during the *Wayfair* case. In the report, the GAO estimated that Missouri could gain \$180 million to \$275 million in state and local sales taxes during 2017 from e-commerce sales tax revenue. B&P notes that there were three limitations to the study which B&P and DOR attempted to address by further refining the GAO estimates.

At the time of the study, the GAO did not remove the sales of digital downloads from the state and local estimates due to data limitations and different tax treatments across states. B&P notes that digital downloads are currently exempt from sales tax under Missouri law. B&P and DOR were able to find limited studies on the e-commerce market share for such sales. The studies indicated that digital downloads account for approximately 14.1% of all e-commerce sales. B&P and DOR then reduced the original GAO estimates by that 14.1%.

The GAO provided a point-in-time estimate for potential state and local revenue gains during 2017. This estimate, though, does not account for anticipated growth in e-commerce sales. To

ASSUMPTION (continued)

address this, B&P and DOR adjusted the GAO estimate to incorporate e-commerce sales growth for tangible personal property from 2018 through 2022. Only growth for e-commerce sales of tangible personal property were used, rather than growth in the full e-commerce market, in order to accurately reflect growth in the online sales tax base. B&P notes that using growth in the full e-commerce market would overestimate the sales tax base as services and digital download products are not currently taxable in Missouri.

At the time of the study, the GAO did not incorporate potential in-state sales or in-state transaction requirements that would limit the companies required to comply with e-commerce sales tax collections. Using data published by the U.S. Census Bureau and industry reports, B&P and DOR were able to estimate the percent of sales that would remain taxable if Missouri instituted an in-state sales threshold of \$100,000. If Missouri were to enact a \$100,000 in-state sales threshold, B&P and DOR estimate that approximately 86.7% of all e-commerce sales would remain taxable. B&P and DOR used this estimate to further adjust the GAO estimate.

B&P and DOR were unable to estimate the impact from a potential in-state transaction requirement. B&P notes that the majority of states are currently enacting e-commerce sales tax requirements of \$100,000 in in-state sales or 200 in-state transactions.

B&P and DOR estimate that in tax year 2021 Missouri could gain up to \$100.3 million to \$153.3 million in total state revenues, and by 2023, B&P and DOR estimate that total state revenues could be increased by \$111.8 million to \$170.8 million.

DOR notes that these estimates reflect the full potential revenue and do not include adjustments for implementation timing or business compliance. Therefore, the actual revenue collected in earlier years may be significantly lower than the estimated amount. The following tables show the potential state and local revenue gains from expanding Missouri sales tax law to include online sales.

ASSUMPTION (continued)

Revenue Estimates	2021		2022		2023	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth, and Threshold	\$197,951,774	\$302,426,322	\$210,246,597	\$321,210,078	\$220,627,544	\$337,069,860
3% General Sales Tax	\$71,262,639	\$108,873,476	\$75,688,775	\$115,635,628	\$79,425,916	\$121,345,149
1% educational sales tax	\$23,754,213	\$36,291,159	\$25,229,592	\$38,545,209	\$26,475,305	\$40,448,383
SSUTA Special Fund	<b>\$95,016,852</b>	<b>\$145,164,634</b>	<b>\$100,918,366</b>	<b>\$154,180,838</b>	<b>\$105,901,221</b>	<b>\$161,793,533</b>
Conservation	\$2,969,277	\$4,536,395	\$3,153,699	\$4,818,151	\$3,309,413	\$5,506,048
Park, Soil, Water	\$2,375,421	\$3,629,116	\$2,522,959	\$3,854,521	\$2,647,531	\$4,044,838
TSR	<b>\$100,361,549</b>	<b>\$153,330,145</b>	<b>\$106,595,025</b>	<b>\$162,853,510</b>	<b>\$111,858,165</b>	<b>\$170,894,419</b>
Local*	\$97,590,225	\$149,096,177	\$103,651,572	\$158,356,569	\$108,769,379	\$166,175,441

*\*Section 144.123.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections*

DOR notes this proposal becomes effective January 1, 2021. Therefore, only six months of revenue will be collected in FY 2021. Additionally, this proposal requires the revenue collected under this proposal to be deposited into the Streamlined Sales and Use Tax Agreement Fund (SSUTA). DOR notes it will show the Conservation Commission Fund and the Parks, Soil & Water Funds still receiving their money as they are constitutionally created. Only the General Revenue and School District Trust Fund money would be transferred to this new Fund.

ASSUMPTION (continued)

By Fiscal Year (assume January 1, 2021 start date).

Revenue Estimates	2021		2022		2023	
	Low	High	Low	High	Low	High
GAO Adjusted for Digital, Growth, and Threshold	\$98,975,887	\$151,213,161	\$204,099,185	\$311,818,200	\$215,437,071	\$329,139,969
3% general sales tax	\$35,631,319	\$54,436,738	\$73,475,707	\$112,254,552	\$77,557,345	\$118,490,389
1% education sales tax	\$11,877,106	\$18,145,579	\$24,491,902	\$37,418,184	\$25,852,448	\$39,496,796
<b>SSUTA Special Fund</b>	<b>\$47,508,425</b>	<b>\$72,582,317</b>	<b>\$97,967,609</b>	<b>\$149,672,736</b>	<b>\$103,409,793</b>	<b>\$157,987,185</b>
Conservation Parks, Soil, Water	\$1,484,638	\$2,268,197	\$3,061,488	\$4,677,273	\$3,231,556	\$4,937,100
<b>TSR</b>	<b>\$50,180,775</b>	<b>\$76,665,073</b>	<b>\$103,478,287</b>	<b>\$158,091,827</b>	<b>\$109,226,595</b>	<b>\$166,873,964</b>
<b>Local*</b>	<b>\$48,795,112</b>	<b>\$74,548,088</b>	<b>\$100,620,898</b>	<b>\$153,726,373</b>	<b>\$106,210,476</b>	<b>\$162,266,005</b>

*\*Section 144.123.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections*

The Department would notify an estimated 200,000 sellers of their potential reporting requirements, estimated postage and printing costs for notifications to online sellers may be up to an estimated \$100,000.

**Administrative Impact**

Sales Tax:

- a. The department estimates it will need three (3) Revenue Processing Technicians (RPT) I to process additional returns.
- b. (1) RPT I to answer additional correspondence



ASSUMPTION (continued)

c. (2) RPTs I to process the additional registration applications and perform location maintenance

FCB Audit

a. The Department will need to increase our number of auditors, especially those in out-of-state offices, in order to address the potential of a greater non-compliant tax base. The Department would need to add twenty-five (25) auditors. The Department believes the twenty-five total auditors could increase over a period of time, as the Department generally performs three-year audits, and there will be limited records to audit in the first several years following implementation of this proposed bill.

b. The Department also estimates it will need two (2) additional auditors in training, to perform discovery work needed to identify potential audit leads from non-registered businesses.

Section 144.030 Sales Tax Exemption

DOR assumes this section includes a new exemption for kidney dialysis equipment and enteral feeding systems which is expected to have a minimal negative impact on Total State Revenue and General Revenue.

Additionally, it contains a sales tax exemption for delivery charges. DOR notes delivery charges are already exempt from sales tax and therefore this will not impact Total State Revenue or General Revenue.

144.049 Back-to-School Sales Tax Holiday

This proposed section would eliminate the ability of a local political subdivision to opt out of participating in the Back to School sales tax holiday, which occurs in August annually. The Department in TY 2018 collected \$677,463.79 and in TY 2019 collected \$424,483.54 from jurisdictions that currently opt out of this holiday. The average collected was \$550,974. This will be a decrease in revenue to the local jurisdictions that currently opt out.

This proposal has an effective date of January 1, 2021. This provision would begin in FY 2022 as the holiday occurs in August.

ASSUMPTION (continued)

DOR assumes this section removes the current \$50 per purchase limit on qualifying school supply purchases during the school tax holiday, removes the \$150 taxable limit for graphing calculators, and creates a \$1,500 per item, rather than the current per purchase, limit on computers and computer supplies. DOR notes that this will have a minimal negative impact on Total State Revenue.

Section 144.054 Manufacturing Local Exemption

Currently there is a sales and use tax manufacturing exemption. Local political subdivisions are still allowed to collect their portion of the sales and use tax. This provision would end the local's ability to continue to collect the tax. The Department tracked an estimated \$887,952,017 in taxable sales that came from manufacturing in FY 2019. Taking the total taxable sales by the population weighted average local sales tax rate for Missouri (3.93%) would have an estimated revenue decrease to the local jurisdictions by \$34,896,514.

This proposal has an effective date of January 1, 2021. This provision would result in 6 months of decrease revenue to the locals in FY 2021.

Section 144.123 Tax Database

This proposed section states that the Director of Revenue shall provide and maintain a database that describes boundary changes for all taxing jurisdictions and the effective dates of such changes for the use of vendors collecting tax.

This proposed section states that for the identification of counties and cities, codes corresponding to the rates shall be provided according to Federal Information Processing Standards. For the identification of all other jurisdictions, codes corresponding to the rates shall be in a format determined by the director.

This proposed section states that the electronic databases provided for in subsections 1, 2, 3, and 4 of this section shall be in downloadable format as determined by the director. The databases shall be provided at no cost to the user of the database, and no vendor shall be liable for reliance upon erroneous data provided by the director on tax rates, boundaries, or taxing jurisdiction assignments.

ASSUMPTION (continued)

Integrated Tax System - The Department anticipates that this proposed section would require a totally new program that would require the Department to contract with a certified service provider. The Department believes the fiscal impact for this would be **significantly greater than \$1 million**. The Department has reached out to multiple CSP providers, though we have yet to get any definitive fiscal response. The Department will continue to research and update when needed.

Section 144.124 Taxability Matrix

The Department anticipates that this proposed section would require a totally new program that would require the Department to contract with a vendor. The Department believes the fiscal impact for this would be **significantly greater than \$5 million**. This legislation requires the Department to have a specific code for every single product and taxing district, and to update when new products hit the market. This will result in an unknown, but potentially significant administrative impact. For the purposes of this fiscal note, the Department will estimate a need for 3 FTE. If the administrative impact is more significant than anticipated, additional FTE will be requested through the appropriations process.

Section 144.517 Textbook Sales and Use Tax Exemption

This provision removes textbooks from being exempt from state sales and use tax. The Department recorded an estimated \$61,847,076 in textbook sales for FY 2019. Taking the total sales by the state sales tax rate of 4.225%, the Department estimates this proposed section will increased Total State Revenue by \$2,613,039 and GR by \$1,855,412.annually.

Fund	FY 2021	FY 2022	FY 2023 +
General Revenue	\$927,706	\$1,855,412	\$1,855,412
School District Trust	\$309,236	\$618,471	\$618,471
Conservation Commission	\$38,655	\$77,309	\$77,309
Park, Soil & Water	\$30,924	\$61,847	\$61,847
<b>TOTAL</b>	<b>\$1,306,521</b>	<b>\$2,613,039</b>	<b>\$2,613,039</b>

This proposal has an effective date of January 1, 2021. This provision would result in 6 months of collection of the tax beginning in FY 2021.

ASSUMPTION (continued)

Section 144.526 Show-Me-Green Sales Tax Holiday

This proposed section would eliminate the ability of a local political subdivision to opt out of participating in the Show-Me-Green sales tax holiday, which occurs in April annually. The Department in TY 2018 collected \$19,843.65 and in TY 2019 collected \$21,108.11 from jurisdictions that currently opt out of this holiday. The average collected was \$20,476. This will be a decrease in revenue to the local jurisdictions that currently opt out.

This proposal has an effective date of January 1, 2021. This provision would begin in FY 2021 as the holiday occurs in April.

Section 144.710 Timely Filing Discount

This proposal eliminates the 2% timely filing discount for taxpayers who remit their use tax in a timely manner. DOR estimates this would be a gain to the following funds.

	FY 2021	FY 2022	FY 2023
General Revenue	\$221,312	\$442,624	\$442,624
School District	\$73,771	\$147,541	\$147,541
Conservation Commission	\$9,222	\$18,443	\$18,443
Parks, Soil & Water	\$7,377	\$14,754	\$14,754
Locals	303,075	\$606,149	\$606,149

ASSUMPTION (continued)

SUMMARY

General Revenue

State Funds	FY 2021		FY 2022		FY 2023	
General Revenue	Low	High	Low	High	Low	High
DOR Collection Fee	\$764,108	\$764,108	\$1,528,217	\$1,528,217	\$1,528,217	\$1,528,217
Use Tax Timely Filing Discount (eliminated)	\$221,312	\$221,312	\$442,624	\$442,624	\$442,624	\$442,624
Kidney Dialysis Equip & Enteral Feeding Systems	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Textbook Sales Tax Exemption - Repealed	\$927,706	\$927,706	\$1,855,412	\$1,855,412	\$1,855,412	\$1,855,412
<b>Total Estimated Impact to GR</b>	<b>\$1,913,126</b>	<b>\$1,913,126</b>	<b>\$3,826,253</b>	<b>\$3,826,253</b>	<b>\$3,826,253</b>	<b>\$3,826,253</b>

Streamlined Sales and Use Tax Agreement Fund

	FY 2021		FY 2022		FY 2023	
Online Sales Tax Collection	\$47,508,425	\$72,582,317	\$97,967,609	\$149,672,736	\$103,409,793	\$157,987,185

ASSUMPTION (continued)

School District Trust Fund

	FY 2021		FY 2022		FY 2023	
Online Sales Tax Collection						
Use Tax Timely Filing Discount (eliminated)	\$73,771	\$73,771	\$147,541	\$147,541	\$147,541	\$147,541
Kidney Dialysis Equip & Enteral Feeding Systems	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Textbook Sales Tax Exemption - Repealed	\$309,235	\$309,235	\$618,471	\$618,471	\$618,471	\$618,471
<b>Total Estimated Impact to Education</b>	<b>\$383,006</b>	<b>\$383,006</b>	<b>\$766,012</b>	<b>\$766,012</b>	<b>\$766,012</b>	<b>\$766,012</b>

ASSUMPTION (continued)

Conservation Commission Fund

	FY 2021		FY 2022		FY 2023	
Online Sales Tax Collection	\$1,484,638	\$2,268,197	\$3,061,488	\$4,677,273	\$3,231,556	\$4,937,100
Use Tax Timely Filing Discount (eliminated)	\$9,222	\$9,222	\$18,443	\$18,443	\$18,443	\$18,443
Kidney Dialysis Equip & Enteral Feeding Systems	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Textbook Sales Tax Exemption - Repealed	\$38,654	\$38,654	\$77,309	\$77,309	\$77,309	\$77,309
<b>Total Estimated Impact to Conservation</b>	<b>\$1,532,514</b>	<b>\$2,316,073</b>	<b>\$3,157,240</b>	<b>\$4,773,025</b>	<b>\$3,327,308</b>	<b>\$5,032,852</b>

ASSUMPTION (continued)

Park, Soil, Water Fund

	FY 2021		FY 2022		FY 2023	
Online Sales Tax Collection	\$1,187,711	\$1,814,558	\$2,449,190	\$3,741,818	\$2,585,245	\$3,949,680
Use Tax Timely Filing Discount (eliminated)	\$7,377	\$7,377	\$14,754	\$14,754	\$14,754	\$14,754
Kidney Dialysis Equip & Enteral Feeding Systems	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Textbook Sales Tax Exemption - Repealed	\$30,924	\$30,924	\$61,847	\$61,847	\$61,847	\$61,847
<b>Total Estimated Impact to DNR</b>	<b>\$1,226,012</b>	<b>\$1,852,859</b>	<b>\$2,525,791</b>	<b>\$3,818,419</b>	<b>\$2,661,846</b>	<b>\$4,026,281</b>



ASSUMPTION (continued)

Local Political Subdivisions

Local Impacts	FY 2021		FY 2022		FY 2023	
	Low	High	Low	High	Low	High
Online Sales Tax Collection	48,795,112	74,548,088	100,620,898	153,726,373	106,210,476	162,266,005
DOR Collection Fee	(764,108)	(764,108)	(1,528,217)	(1,528,217)	(1,528,217)	(1,528,217)
Use Tax Timely Filing Discount (eliminated)	303,075	303,075	606,149	606,149	606,149	606,149
Kidney Dialysis Equip & Enteral Feeding Systems	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$50 Purchase Limit - Removed (Prev. Not Opted Out)	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School \$150 Graphing Calculator Limit - Removed (Prev. Not Opted Out)	(Min)	(Min)	(Min)	(Min)	(Min)	(Min)
Back-to-School Sales Tax Holiday (Prev. Opted Out)	0	0	(424,484)	(424,484)	(424,484)	(424,484)
Manufacturing Sales Tax Exemption	(17,448,257)	(17,448,257)	(34,896,514)	(34,896,514)	(34,896,514)	(34,896,514)
Show-Me Green Sales Tax Holiday (Prev. Opted Out)	(21,108)	(21,108)	(21,108)	(21,108)	(21,108)	(21,108)
<b>Total Estimated Impact to Local Revenues</b>	<b>\$30,864,714</b>	<b>\$56,617,690</b>	<b>\$64,356,724</b>	<b>\$117,462,199</b>	<b>\$69,946,302</b>	<b>\$126,001,831</b>

ASSUMPTION (continued)

**Oversight** notes that it does not currently have the resources and/or access to state tax data to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Oversight will reflect BAP's and DOR's revenue estimates for the fiscal note.

Officials from **Missouri Department of Transportation** notes that their agency will defer to DOR's assumptions regarding this proposal.

Officials from **Office of Secretary of State (AGO)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than \$5,000. The Secretary of State's office 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 in excess of what 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.

**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 from **Department of Conservation (MDC)** assume this proposal could have 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 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.

ASSUMPTION (continued)

Officials from **Department of Natural Resources (DNR)** assume this proposal includes a "streamlined sales and use tax agreement special fund" and states "all revenue generated under the streamlined sales and use tax agreement act that exceeds the amount of revenue that would have been collected if the streamlined sales and use tax agreement act were not effective shall be deposited" in this special fund solely for the approved purposes. The proposal is unclear how the "exceeds the amount of revenue that would have been collected if the streamlined sales and use tax agreement act were not effective" is determined. Based on what is considered excess funds could have an impact on revenues for the Department of Natural Resources, Division of State Parks constitutional sales and use taxes.

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 DOR & B&P assume MDC's and DNR's sales taxes are constitutional mandates,

Officials from **City of Kansas City** state the exemption in 144.030.2 for sales of durable medical equipment found in this legislation will have an unknown negative fiscal impact on Kansas City's revenue collections. The Streamlined Sales and Use Tax Agreement Act found in this legislation will likely have a positive fiscal impact on Kansas City by increasing its revenues.

**Oversight** will note Local Political Subdivisions calculation projected by DOR and B&P as shown above. Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other Political Subdivisions were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to [www.legislativeoversight.mo.gov](http://www.legislativeoversight.mo.gov).

Officials from **Joint Committee on Administrative Rules** notes this proposal is not anticipated to cause a fiscal impact to the Committee.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>GENERAL REVENUE</b>			
<u>Revenue - DOR</u>			
DOR 1% Collection Fee p. 4	\$764,108	\$1,528,217	\$1,528,217
Use Tax Timely Filing Eliminated p. 12	\$221,312	\$442,624	\$442,624
Textbook Sales Tax Exemption p. 11	<u>\$927,706</u>	<u>\$1,855,412</u>	<u>\$1,855,412</u>
Repealed			
<u>Total Revenue- DOR</u>	\$1,913,126	\$3,826,253	\$3,826,253
<u>Cost - Implementation of Streamline Tax System</u>			
Salaries (40 FTE)	(\$1,146,480)	(\$1,389,534)	(\$1,403,429)
Fringe Benefits	(\$764,746)	(\$922,264)	(\$926,879)
Tax Database p. 11	(\$1,000,000)	\$0	\$0
Taxability Matrix p. 11	(\$5,000,000)	\$0	\$0
Expense & Equipment	<u>(\$1,041,968)</u>	<u>\$0</u>	<u>\$0</u>
<u>Total Cost - Implementation of Streamline Tax System</u>	<u>(\$8,953,194)</u>	<u>(\$2,311,798)</u>	<u>(\$2,330,308)</u>
FTE Change DOR	40 FTE	40 FTE	40 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUES</b>	<b><u>(\$7,040,068)</u></b>	<b><u>\$1,514,455</u></b>	<b><u>\$1,495,945</u></b>
Estimated Net FTE Change for General Revenue	40 FTE	40 FTE	40 FTE
<b>STREAMLINED SALES AND USE TAX AGREEMENT FUND (SSUTA) and Use Tax AGREEMENT</b>			
SSUTA - 144.021 & 144.565 Online Sales Tax Collections p. 8	\$47,508,425- <u>\$72,582,317</u>	\$97,967,609 - <u>\$149,672,736</u>	\$103,409,793 - <u>\$157,987,185</u>
<b>ESTIMATED NET EFFECT ON SSUTA FUND</b>	<b><u>\$47,508,425-</u></b> <b><u>\$72,582,317</u></b>	<b><u>\$97,967,609 -</u></b> <b><u>\$149,672,736</u></b>	<b><u>\$103,409,793 -</u></b> <b><u>\$157,987,185</u></b>

**FISCAL IMPACT - State Government**  
**(continued)**

**CONSERVATION COMMISSION FUNDS**

<u>Revenue</u> - §144.710 -Timely Filing Discount Elimination p. 12	\$9,222	\$18,443	\$18,443
<u>Revenue</u> - DOR §144.517 - Textbook Sales Tax Exemption Repealed p. 11	\$38,654	\$77,309	\$77,309
<u>Revenue</u> - 144.021 & 144.565 Online Sales Tax Collections p. 8	\$1,484,638 - <u>\$2,268,197</u>	\$3,061,488 - <u>\$4,677,273</u>	\$3,231,556 - <u>\$4,937,100</u>

<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUNDS</b>	<b>\$1,532,514- <u>\$2,316,073</u></b>	<b>\$3,157,240- <u>\$4,773,025</u></b>	<b>\$3,327,308 - <u>\$5,032,852</u></b>
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**PARK, SOIL, WATER FUND**

<u>Revenue</u> - §144.710 - Use Tax Timely Filing Discount Elimination p. 12	\$7,377	\$14,754	\$14,754
<u>Revenue</u> - DOR §144.517 - Textbook Sales Tax Exemption Repealed p. 11	\$30,924	\$61,847	\$61,847
<u>Revenue</u> - 144.021 & 144.565 Online Sales Tax Collections p. 8	\$1,187,711 - <u>\$1,814,558</u>	\$2,449,190 - <u>\$3,741,818</u>	\$2,585,245 - <u>\$3,949,680</u>

<b>ESTIMATED NET EFFECT ON PARK , SOIL AND WATER FUNDS</b>	<b>\$1,226,012- <u>\$1,852,859</u></b>	<b>\$2,525,791 - <u>\$3,818,419</u></b>	<b>\$2,661,846 - <u>\$4,026,281</u></b>
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**SCHOOL DISTRICT FUND**

<u>Revenue</u> - §144.710 - Use Tax Timely Filing Discount Elimination p. 12	\$73,771	\$147,541	\$147,541
<u>Revenue</u> - 144.021 & 144.565 Online Sales Tax Collections p. 11	<u>\$309,235</u>	<u>\$618,471</u>	<u>\$618,471</u>

<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUND</b>	<b><u>\$383,006</u></b>	<b><u>\$766,012</u></b>	<b><u>\$766,012</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
Revenue Decrease - §32.086 DOR 1% Collection Fee p. 4	(\$764,108)	(\$1,528,217)	(\$1,528,217)
Revenue Decrease - §144.049 Back to School Holiday no opt out p. 9	\$0	(\$424,484)	(\$424,484)
Revenue Decrease - §144.049 Manufacturing Local Exemptions p. 12	(\$17,448,257)	(\$34,896,514)	(\$34,896,514)
Revenue Decrease - §144.526 Show Me Green Sales Tax Holiday p. 8	(\$21,108)	(\$21,108)	(\$21,108)
Revenue Increase - 144.021 & 144.565 Online Sales Tax Collections	\$48,795,112- \$74,548,088	\$100,620,898 - \$153,726,373	\$106,210,476 - \$162,266,005
Revenue Increase - §144.710 - Use Tax Timely Filing Discount Elimination p. 12	<u>\$303,075</u>	<u>\$606,149</u>	<u>\$606,149</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$30,864,714-</u> <u>\$56,617,690</u></b>	<b><u>\$64,356,724-</u> <u>\$117,462,199</u></b>	<b><u>\$69,946,302 -</u> <u>\$126,001,831</u></b>

#### FISCAL IMPACT - Small Business

The small business be impacted by the numerous sales tax changes in the bill.

#### FISCAL DESCRIPTION

This bill creates the "Streamlined Sales and Use Tax Agreement Act" and requires the Director of the Department of Revenue to enter into the "Streamlined Sales and Use Tax Agreement" with one or more states to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and types of commerce. Additionally, this bill creates the "Streamlined Sales and Use Tax Agreement Special Fund" which will consist of the revenue generated by this bill and will be transferred to pay for outstanding transportation bond debt. These provisions will sunset five years after the effective date of the bill (Section 32.070).

FISCAL DESCRIPTION (continued)

The bill specifies that:

(1) When a city annexes or detaches property, the city clerk must forward a certified copy of the ordinance to the department director within 10 days of adoption of the ordinance. The tax rate in the added or abolished territory must become effective on the first day of the calendar quarter 120 days after the sellers receive notice of the change (Section 32.087.18, RSMo);

(2) When a political subdivision changes the tax rate or the local sales tax boundary, the change must become effective on the first day of the calendar quarter 120 days after the sellers receive notice of the change (Section 32.087.19); and

(3) When specified political subdivisions repeal an existing tax, the repeal must become effective on the first day of the calendar quarter 120 days after notice to sellers (Sections 66.620 - 67.1545, 67.1775, 67.2000, and 67.2530).

The bill also:

(1) Requires the department to establish the necessary rules to implement the compliance provisions of the agreement. The state must be represented by three delegates including a person appointed by the Governor, a member of the General Assembly appointed by mutual consent of the President Pro Tem of the Senate and the Speaker of the House of Representatives, and the department director or his or her designee. The delegates must make an annual report by January 15 on the status of the agreement (Section 32.070);

(2) Authorizes the department director to retain 1% of the amount of any local sales or use taxes collected by the department for the cost of collection (Sections 32.086 and 67.395 - 67.576);

(3) Requires the department director to perform all functions regarding the administration, collection, enforcement, and operation of all sales tax and additional tax authorized in the bill (Section 67.2530);

(4) Defines "delivery charges," "food and food ingredients," "bottled water," "candy," "ancillary services," "lease or rental," and "purchase price" as they apply in the streamlined agreement. The bill also defines "engages in business activities within this state" and "maintains a place of business in this state" as they relate to the collection of taxes and defines "tangible personal property" to exclude specified digital products, digital audiovisual works, digital audio works, and digital books (Section 144.010);

(5) Establishes rules to determine the taxability of bundled transactions involving both taxable and nontaxable goods or services (Section 144.022);

FISCAL DESCRIPTION (continued)

- (6) Requires uniform sourcing rules to determine what tax rates will apply to certain transactions (Sections 144.043, and 144.111 - 144.112);
- (7) Requires the department director to participate in an online registration system that will allow sellers to register in this state and other member states. Registration with the central registration system and the collection of sales and use taxes in this state must not be used as a factor in determining whether the seller has nexus with this state for any tax at any time (Section 144.082);
- (8) Requires the department director to establish rules and regulations for the remittance of sales and use taxes that allow for payments by all remitters and requires a seller to submit its sales and use tax returns electronically in a simplified format approved and prescribed by the department director (Section 144.084);
- (9) Requires a seller to be allowed a deduction from taxable sales for bad debts attributable to taxable sales that have become uncollectible (Section 144.105);
- (10) Requires the department director to provide and maintain an electronic database that describes boundary changes for all taxing jurisdictions and the effective dates of the changes for sales and use tax purposes, a database of all sales and use tax rates for all taxing jurisdictions, and a database that assigns each five- and nine-digit zip code to the proper rates and taxing jurisdictions. The department director must complete a taxability matrix and provide reasonable notice of changes in the taxability of products or services listed in the matrix. A seller or certified service provider cannot be held liable for reliance upon erroneous data provided by the department director on tax rates, boundaries, or taxing jurisdiction assignments (Sections 144.123 - 144.124);
- (11) Authorizes an amnesty to certain out-of-state sellers with uncollected or unpaid sales or use tax if the seller was not registered in Missouri in the prior 12-month period before the effective date of this state's participation in the streamlined agreement (Section 144.125);
- (12) Requires the department director to provide a monetary allowance under the automated collection system for sellers and certified service providers for collecting and remitting the state and local sales taxes. Currently, sellers are allowed to keep 2% for collecting and timely remitting the tax. A seller cannot simultaneously receive this monetary allowance and the 2% timely filing deduction (Sections 144.140 and 144.710); and



FISCAL DESCRIPTION (continued)

(13) Requires marketplace facilitators that meet the sales tax economic nexus threshold established in the bill to register with the Department of Revenue to collect and remit sales tax on sales made into the state through the marketplace facilitator's marketplace by or on behalf of a marketplace seller, as described in the bill (Section 144.575).

SALES AND USE TAX

The bill:

(1) Authorizes a state and local sales and use tax exemption for sales of over-the-counter drugs to individuals with disabilities, and all sales of durable medical equipment, prosthetic devices, mobility enhancing equipment, and drugs dispensed by prescription (Section 144.030.2(19));

(2) Authorizes a state and local sales and use tax exemption for school instructional materials (Section 144.030.2(46));

(3) Removes opt-out option for locals, changes the purchase limits on the back-to-school sales tax holiday from a per transaction limit to a per item limit and adds instructional materials and school computer supplies (Section 144.049); and

(4) Requires any out-of-state seller who voluntarily collects and remits use tax to file and remit the tax annually unless the amount is equal to \$1,000 or more. The seller must file and remit the use tax for the month when \$1,000 or more is due (Section 144.655.7).

The provisions of the bill regarding the "Streamlined Sales and Use Tax Agreement" will become effective January 1, 2021

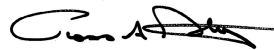
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration Budget & Planning  
Department of Revenue  
Attorney General's Office  
Department of Natural Resources  
Department of Conservation  
Missouri Department of Transportation  
City of Kansas City



Julie Morff  
Director  
February 11, 2020



Ross Strobe  
Acting Director  
February 11, 2020