

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3467H.011
 Bill No.: HB 1606
 Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Property, Real and Personal; Department of Revenue; State Tax Commission
 Type: Original
 Date: January 17, 2024

Bill Summary: This proposal provides a sales tax exemption for certain used tangible personal property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	(\$6,791,445)*	(\$9,055,260)	(\$9,055,260)
Total Estimated Net Effect on General Revenue	(\$6,791,445)*	(\$9,055,260)	(\$9,055,260)

*The fiscal impact for FY2025 is lesser because FY2025 is a partial year (9 months)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
School District Trust	(\$2,263,815)*	(\$3,018,420)	(\$3,018,420)
Conservation	(\$282,977)*	(\$377,302)	(\$377,302)
Parks and Soil	(\$226,382)*	(\$301,842)	(\$301,842)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$2,773,174)*	(\$3,697,564)	(\$3,697,564)

*The fiscal impact for FY2025 is lesser because FY2025 is a partial year (9 months)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	(\$14,307,311)*	(\$19,076,414)	(\$19,076,414)

*The fiscal impact for FY2025 is lesser because FY2025 is a partial year (9 months)

FISCAL ANALYSIS

ASSUMPTION

Sections 144.030 & 144.615 - Sales Tax Exemption for Used Items

Officials from the **Department of Revenue (DOR)** note currently when an item is purchased, the customer owes sales or use tax on the item and each time it is resold. Whether you pay sales or use tax on the item depends on the business' nexus with the state. This proposal will exempt from sales tax an item that is used and sold at an auction. It should be noted that most auction sales are already exempt from taxation but consignment sales at auction are still subject to tax. This proposal would eliminate the tax on those sales also.

DOR does not maintain information on the number of these sales that are subject to tax in Missouri. Based on research into the industry, approximately \$17.6 billion in revenue is generated annually. Missouri's share of national consumption per the U.S. Bureau of Economic Analysis says Missouri represents about 1.7% of the consumption. Which means Missouri would have auction consignment sales of at least \$301,841,990 annually.

The state sales tax is 4.225%. That sales tax is broken down as:

General Revenue	3%
School District	1%
Conservation Commission	.125
Parks, Soil & Water Funds	.1%

For fiscal note purposes, the Department is using a weighted local tax rate of 6.32% to calculate the average local sales tax loss. In an effort to more accurately reflect the estimated local impact, B&P and DOR have moved from a population weighted average local sales tax rate to a location weighted average local sales tax rate. This change was made to reflect where sales actually occur, rather than exclusively where people live.

This proposal would become effective on August 28, 2024. It should be noted that sales tax is remitted one month behind collections and therefore, this will have an impact of 9 months in the first year (FY 2025).

Exempting these sales would result in a loss of revenue of:

<u>State Funds</u>	FY 2025	FY 2026+
General Revenue	(\$6,791,445)	(\$9,055,260)
School District	(\$2,263,815)	(\$3,018,420)
Conservation Park, Soil & Water	(\$282,977)	(\$377,302)
	(\$226,382)	(\$301,842)
Total State Revenues	(\$9,564,619)	(\$12,752,824)
<u>Local Funds</u>		
Local Sales Tax	(\$14,307,311)	(\$19,076,414)

This will require the Department to update the department’s website and computer programs. This is estimated to cost \$1,785.

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the administrative costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt sales at auction from state and local sales tax. B&P notes that the majority of auction sales are already exempt from taxation. However, consignment sales at auction are subject to state and local sales tax.

Based on industry research, B&P determined that in the U.S. auction consignment sales generate approximately \$17.6 billion in revenue per year. Based on data published by the U.S. Bureau of Economic Analysis, B&P estimates that the share of national consumption occurring in Missouri was about 1.7% in 2022. Therefore, B&P estimates that Missouri auction consignment sales could be \$301,841,990 annually.

Based on the above information, B&P estimates that this proposal could reduce TSR by \$12,752,824 ($\$301,841,990 \times 4.225\%$) and GR by \$9,055,260 ($\$301,841,990 \times 3.0\%$) annually. Using the location* weighted average local sales tax rate of 6.32% for 2023, B&P further estimates that this provision could reduce local sales tax collections by \$19,076,414 annually.

*In an effort to more accurately reflect the estimated local impact, B&P and DOR have moved from a population weighted average local sales tax rate to a location weighted average local sales

tax rate. This change was made to reflect where sales actually occur, rather than exclusively where people live.

Table 1: Estimated Revenue Impact by Fund

<u>State Funds</u>	FY 2025	FY 2026+
General Revenue	(\$6,791,445)	(\$9,055,260)
Education (SDTF)	(\$2,263,815)	(\$3,018,420)
Conservation	(\$282,977)	(\$377,302)
DNR	(\$226,382)	(\$301,842)
Total State Revenues	(\$9,564,619)	(\$12,752,824)
<u>Local Funds</u>		
Local Sales Tax	(\$14,307,311)	(\$19,076,414)

Officials from the **Missouri Department of Conservation** assume an unknown fiscal impact. 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 defers to the Department of Revenue as it is responsible for tax collection and would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that the Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax of the Missouri Constitution, thus MDC's sales taxes are constitutional mandates. Oversight assumes the proposed sales tax exemption may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for MDC's funds.

Officials from the **Department of Natural Resources** assume the proposal will have no fiscal impact on their organization.

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. Oversight assumes the proposed sales tax exemption may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will reflect the B&P's and DOR's fiscal impact estimates for DNR's funds.

Officials from the **City of Kansas City** assume this legislation will have a negative fiscal impact of an indeterminate amount.

Officials from the **City of Springfield** anticipate a negative fiscal impact of an undetermined amount.

Officials from the **St. Louis Budget Division** assume the proposed legislation would provide a sales tax exemption for certain used tangible personal property. It is anticipated that this would have a negative impact on the amount of City sales taxes collected but this amount is not determined.

Oversight notes the above local political subdivisions stated this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount. Oversight assumes the proposed sales tax exemption may decrease the amount of sales tax revenue to all localities. Therefore, Oversight will note B&P and DOR’s estimates for all local political subdivisions on the fiscal note.

Officials from the **Phelps County Sheriff, Kansas City Police Dept., St. Louis County Police Department, and the Eureka Fire Protection District (EURE) - St. Louis** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight notes officials from B&P and DOR both assume the proposal will have a direct fiscal impact on state and local revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect DOR’s and B&P’s estimated impact in the fiscal note.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Reduction</u> - §144.030 - Sales tax exemption on used goods	(\$6,791,445)	(\$9,055,260)	(\$9,055,260)
ESTIMATED NET EFFECT ON GENERAL REVENUE	(\$6,791,445)	(\$9,055,260)	(\$9,055,260)
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.030 - Sales tax exemption on used goods	(\$2,263,815)	(\$3,018,420)	(\$3,018,420)

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>(\$2,263,815)</u>	<u>(\$3,018,420)</u>	<u>(\$3,018,420)</u>
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction - §144.030 - Sales tax exemption on used goods</u>	<u>(\$282,977)</u>	<u>(\$377,302)</u>	<u>(\$377,302)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>(\$282,977)</u>	<u>(\$377,302)</u>	<u>(\$377,302)</u>
PARKS AND SOILS STATE SALES TAX FUNDS			
<u>Revenue Reduction - §144.030 - Sales tax exemption on used goods</u>	<u>(\$226,382)</u>	<u>(\$301,842)</u>	<u>(\$301,842)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>(\$226,382)</u>	<u>(\$301,842)</u>	<u>(\$301,842)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction - §144.030 - Sales tax exemption on used goods</u>	<u>(\$14,307,311)</u>	<u>(\$19,076,414)</u>	<u>(\$19,076,414)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(\$14,307,311)</u>	<u>(\$19,076,414)</u>	<u>(\$19,076,414)</u>

FISCAL IMPACT – Small Business

Certain small auction businesses that sell used goods could be impacted by the proposal.

FISCAL DESCRIPTION

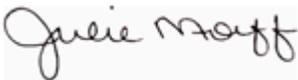
This bill exempts from sales tax all sales of used tangible personal property, including any tangible personal property that is sold a second time or any number of additional subsequent times after the initial point of sale, at an auction.

The provisions of this bill shall not apply to motor vehicles, trailers, boats, or outboard motors purchased or acquired for use on the highways or waters of this state which are required to be titled.

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 Revenue
Office of Administration - Budget and Planning
Missouri Department of Conservation
Department of Natural Resources
City of Kansas City
City of Springfield
St. Louis Budget Division
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept
Eureka Fire Protection District (EURE) - St. Louis



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January 17, 2024



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