

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4508H.011  
 Bill No.: HB 2168  
 Subject: Taxation and Revenue - Sales and Use; Taxation and Revenue - General; Internet and E-Mail; Department of Revenue  
 Type: Original  
 Date: April 30, 2024

Bill Summary: This proposal provides a sales and use tax exemption for certain machinery and equipment used in providing broadband services.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	Could exceed (\$1,750,270)	Could exceed (\$4,200,648)	Could exceed (\$4,200,648)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Could exceed (\$1,750,270)*</b>	<b>Could exceed (\$4,200,648)</b>	<b>Could exceed (\$4,200,648)</b>

\*Oversight notes the fiscal impact is lesser because fiscal year 2025 is a partial year (5 months).

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
School District Trust Fund (0688)	Could exceed (\$583,423)	Could exceed (\$1,400,216)	Could exceed (\$1,400,216)
Conservation Commission Fund (0609)	Could exceed (\$72,928)	Could exceed (\$175,027)	Could exceed (\$175,027)
Parks and Soil Sales Tax Fund (0613)	Could exceed (\$58,342)	Could exceed (\$140,022)	Could exceed (\$140,022)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>Could exceed (\$714,694)*</b>	<b>Could exceed (\$1,715,265)</b>	<b>Could exceed (\$1,715,265)</b>

\*Oversight notes the fiscal impact is lesser because fiscal year 2025 is a partial year (5 months).

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</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 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on FTE</b>			

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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>Could exceed (\$3,687,235)*</b>	<b>Could exceed (\$8,849,365)</b>	<b>Could exceed (\$8,849,365)</b>

\*Oversight notes the fiscal impact is lesser because fiscal year 2025 is a partial year (5 months).

## FISCAL ANALYSIS

### ASSUMPTION

#### **Section 144.812 - Broadband Sales & Use Tax Exemption**

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning tax year 2025, this proposal would exempt all machinery and equipment used to provide broadband from state and local sales/use tax. B&P notes that this proposal would include equipment used at the broadband service provider (such as software and hub equipment), equipment used outside (such as fiber and poles), and equipment used within a customer's house (such as modems).

B&P is unable to determine exactly how much is spent each year to provide broadband internet service. However, B&P does have data on the amount of federal grants received by broadband providers since 2019. Based on industry research, labor accounts for approximately 60% of broadband production costs.

For the purpose of this fiscal note, B&P will use federal grant data to estimate the potential sales tax loss. However, B&P notes that this is only partial data and does not account for continuing costs faced by service providers running networks. Therefore, it is likely that the actual impact will exceed (maybe significantly) the impacts estimated below.

Based on multiple sources, B&P was able to determine the following federal grants were awarded to Missouri broadband providers. B&P then split the grants between labor (60%) and equipment (40%).

Table 1: Estimated Broadband Grants

Tax Year	Federal Grants	Est. Labor	Est. Equipment
2019	\$30,301,421	\$18,180,853	\$12,120,568
2020	\$137,577,527	\$82,546,516	\$55,031,011
2021	\$39,629,766	\$23,777,860	\$15,851,906
2022	\$94,975,079	\$56,985,047	\$37,990,032
2023	\$364,829,766	\$218,897,860	\$145,931,906
2024	\$450,529,766	\$270,317,860	\$180,211,906
2025	\$374,629,766	\$224,777,860	\$149,851,906

Using only the portion of the federal grants used on the purchase of equipment, B&P estimates that this proposal could exempt \$149,851,906 in taxable sales during calendar year 2025. For calendar years 2026 and beyond, B&P estimates that this proposal could exempt \$12,120,568 to \$180,211,906 from taxable sales annually. Table 2 shows the estimated impact by calendar year.

Table 2: Estimated Sales Tax Loss by Calendar Year

<b>State Funds</b>	CY 2025	CY 2026		CY 2027	
		Low	High	Low	High
General Revenue	(\$4,495,557)	(\$363,617)	(\$5,406,357)	(\$363,617)	(\$5,406,357)
Education	(\$1,498,519)	(\$121,206)	(\$1,802,119)	(\$121,206)	(\$1,802,119)
Conservation	(\$187,315)	(\$15,151)	(\$225,265)	(\$15,151)	(\$225,265)
DNR	(\$149,852)	(\$12,121)	(\$180,212)	(\$12,121)	(\$180,212)
<b>Total State Revenues</b>	<b>(\$6,331,243)</b>	<b>(\$512,094)</b>	<b>(\$7,613,953)</b>	<b>(\$512,094)</b>	<b>(\$7,613,953)</b>
<b>Local Funds</b>					
Local Sales Tax	(\$9,470,640)	(\$766,020)	(\$11,389,392)	(\$766,020)	(\$11,389,392)

Based on historical sales tax data, sales tax collections in a calendar year are split 50/50 between fiscal years. Therefore, B&P estimates that this proposal could reduce TSR by an amount that could exceed \$2,638,018 in FY25. In future years, this proposal could reduce TSR by an amount that could exceed \$512,095 to \$7,613,953 annually. Table 3 shows the estimated impact by fiscal year.

Table 3: Estimated Sales Tax Loss by Fiscal Year

<b>State Funds</b>	FY 2025	FY 2026		FY 2027	
		Low	High	Low	High
General Revenue	Could exceed (\$1,873,149)	Could exceed (\$2,429,587)	Could exceed (\$4,950,957)	Could exceed (\$363,617)	Could exceed (\$5,406,357)
Education	(\$624,383)	(\$809,862)	(\$1,650,319)	(\$121,206)	(\$1,802,119)
Conservation	(\$78,048)	(\$101,233)	(\$206,290)	(\$15,151)	(\$225,265)
DNR	(\$62,438)	(\$80,986)	(\$165,032)	(\$12,121)	(\$180,212)
<b>Total State Revenues</b>	<b>(\$2,638,018)</b>	<b>(\$3,421,668)</b>	<b>(\$6,972,598)</b>	<b>(\$512,095)</b>	<b>(\$7,613,953)</b>
<b>Local Funds</b>					
Local Sales Tax	Could exceed (\$3,946,100)	Could exceed (\$5,118,330)	Could exceed (\$10,430,016)	Could exceed (\$766,020)	Could exceed (\$11,389,392)

Based on the estimated equipment sales per calendar year estimated by the Office of Administration - Budget and Planning, **Oversight** assumes the following fiscal impacts by FY:

Tax Year	Federal Grants	Equipment Sales TY	Fiscal Year	Equipment Sales FY
2019	\$30,301,421	\$12,120,568		
2020	\$137,577,527	\$55,031,011	2020	\$33,575,790
2021	\$39,629,766	\$15,851,906	2021	\$35,441,459
2022	\$94,975,079	\$37,990,032	2022	\$26,920,969
2023	\$364,829,766	\$145,931,906	2023	\$91,960,969
2024	\$450,529,766	\$180,211,906	2024	\$163,071,906
2025	\$374,629,766	\$149,851,906	2025	\$165,031,906

**Oversight** notes based on the figures in the table above, Overnight estimates the 3-year average equipment sales exempt under this proposal per fiscal year at \$140,021,594. Oversight will use this estimate of sales revenue per year to estimate the state and local fiscal impacts resulting from this proposal. Oversight assumes this exemption begins January 1, 2025. Therefore, Oversight assumes five months of impact (assuming a one month delay in revenue received) for FY 2025.

Fund	FY2025	FY2026	FY2027+
General Revenue	\$1,750,270	\$4,200,648	\$4,200,648
Education	\$583,423	\$1,400,216	\$1,400,216
Conservation	\$72,928	\$175,027	\$175,027
DNR	\$58,342	\$140,022	\$140,022
Other State Funds	\$714,694	\$1,715,265	\$1,715,265
Locals	\$3,687,235	\$8,849,365	\$8,849,365

**Oversight** notes the above estimated fiscal impacts do not account for continuing costs faced by service providers running networks. Therefore, the actual impact could exceed the impacts estimated above.

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

**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. Based on information from the Department of Revenue, Oversight does not expect the fiscal impact to reach the (\$250,000) threshold.

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. Based on information from the Department of Revenue, Oversight does not expect the fiscal impact to reach the (\$250,000) threshold.

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

**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 (5 Mo.)	FY 2026	FY 2027
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction - §144.812 - Broadband Sales &amp; Use Tax Exemption</u>	Could exceed <u>(\$1,750,270)</u>	Could exceed <u>(\$4,200,648)</u>	Could exceed <u>(\$4,200,648)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>Could exceed <u>(\$1,750,270)</u></b>	<b>Could exceed <u>(\$4,200,648)</u></b>	<b>Could exceed <u>(\$4,200,648)</u></b>
<b>SCHOOL DISTRICT TRUST FUND</b>			
<u>Revenue Reduction - §144.812 - Broadband Sales &amp; Use Tax Exemption</u>	Could exceed <u>(\$583,423)</u>	Could exceed <u>(\$1,400,216)</u>	Could exceed <u>(\$1,400,216)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b>Could exceed <u>(\$583,423)</u></b>	<b>Could exceed <u>(\$1,400,216)</u></b>	<b>Could exceed <u>(\$1,400,216)</u></b>

<u>FISCAL IMPACT – State Government</u>	FY 2025 (5 Mo.)	FY 2026	FY 2027
<b>CONSERVATION COMMISSION FUND</b>			
<u>Revenue Reduction - §144.812 - Broadband Sales &amp; Use Tax Exemption</u>	Could exceed <u>(\$72,928)</u>	Could exceed <u>(\$175,027)</u>	Could exceed <u>(\$175,027)</u>
<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b>Could exceed <u>(\$72,928)</u></b>	<b>Could exceed <u>(\$175,027)</u></b>	<b>Could exceed <u>(\$175,027)</u></b>
<b>PARKS AND SOILS SALES TAX FUNDS</b>			
<u>Revenue Reduction - §144.812 - Broadband Sales &amp; Use Tax Exemption</u>	Could exceed <u>(\$58,342)</u>	Could exceed <u>(\$140,022)</u>	Could exceed <u>(\$140,022)</u>
<b>ESTIMATED NET EFFECT ON PARKS AND SOILS SALES TAX FUNDS</b>	<b>Could exceed <u>(\$58,342)</u></b>	<b>(Could exceed <u>\$140,022)</u></b>	<b>Could exceed <u>(\$140,022)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (5 Mo.)	FY 2026	FY 2027
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Reduction - §144.812 - Broadband Sales &amp; Use Tax Exemption</u>	Could exceed <u>(\$3,687,235)</u>	Could exceed <u>(\$8,849,365)</u>	Could exceed <u>(\$8,849,365)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b>Could exceed <u>(\$3,687,235)</u></b>	<b>Could exceed <u>(\$8,849,365)</u></b>	<b>Could exceed <u>(\$8,849,365)</u></b>

FISCAL IMPACT – Small Business

Certain small businesses that provide broadband communications could be impacted by the proposal.

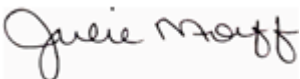
FISCAL DESCRIPTION

Beginning January 1, 2025, this bill exempts from state and local sales and use tax all sales, purchases or use of machinery and equipment used to provide broadband communications services by a broadband communications service provider. To qualify for the exemption, a provider must provide to the seller a certificate in writing of the exemption. The Director of the Department of Revenue must allow a provider to enter into a direct pay agreement with the Department to pay any applicable sales and use taxes on the equipment.

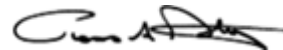
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning  
Missouri Department of Conservation  
Department of Natural Resources  
City of Kansas City



Julie Morff  
Director  
April 30, 2024



Ross Strobe  
Assistant Director  
April 30, 2024