

+COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0912H.01I  
Bill No.: HB 321  
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Tax  
Incentives; Department of Revenue; Counties; Cities, Towns, and Villages  
Type: Original  
Date: February 23, 2025

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Bill Summary: This proposal modifies provisions relating to local sales tax law exemptions.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	\$264,485	\$352,646	\$352,646
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$264,485**</b>	<b>\$352,646</b>	<b>\$352,646</b>

\*The positive amount above represents the potential 1% collection fee collected by DOR.

\*\* The estimated fiscal impact for fiscal year 2026 is lesser because FY 2026 is a partial year (9 months).

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
<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.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</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 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</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 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>
<b>Local Government</b>	<b>\$26,183,945*</b>	<b>\$34,911,927</b>	<b>\$34,911,927</b>

\* The estimated fiscal impact for fiscal year 2026 is lesser because FY 2026 is a partial year (9 months).

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 144.054 - Local Sales Tax Exemptions

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning August 28, 2025, this proposal would reinstate local sales tax on manufacturing activities. B&P notes that SB 153 (2021) exempted manufacturing activity from local sales tax as part of simplifying the sales tax code in preparation of online use tax.

In tax year 2022, the last year local taxes were collected on manufacturing activities, \$35,264,573 was collected. B&P notes that DOR is allowed to retain 1% for collection costs.

Therefore, B&P estimates that this proposal could increase GR by \$264,484 and local sales tax collections by \$26,183,946 in FY26. Once fully implemented, this proposal could increase GR by \$352,646 and local sales tax collections by \$34,911,927 annually.

Officials from the **Department of Revenue (DOR)** note in 2021 with the passage of SB 153, manufacturing activity was exempted from local sales tax. It was previously only exempted from the state sales tax. This proposal starting August 28, 2025, would again require the payment of the local sales tax on manufacturing activity.

The last year this local tax was collected was tax year 2022. DOR records indicate the receipt of \$35,264,573 in local sales tax. DOR notes that when collecting sales or use tax, DOR is able to retain 1% to cover the department's collection costs.

Sales tax is remitted one month behind collection. Therefore, with an effective date of August 28, 2025, DOR assumes only 9 months of collection in FY 2026.

Fiscal Year	DOR 1% fee	Locals sales tax
2026	\$264,485	\$26,183,945
2027+	\$352,646	\$34,911,927

This will require DOR to modify the department's forms (\$2,200), DOR's website and its computer system with its distribution program (\$10,000).

**Oversight** notes the DOR requests one-time cost for website income-tax changes and updates to comply with the proposed language; however, Oversight notes that DOR receives appropriation for routine website updates and will not show those costs in the fiscal note.

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

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

Officials from the **City of Kansas City** assume the proposed legislation has a potential positive fiscal impact of an indeterminate amount.

Officials from the **Ste. Genevieve County Treasurer** note the county has experienced a significant loss in sales tax revenue because of the local sales tax exemption.

The exemption started the year 2023, so the county compared the year 2022 when the exemption was not in place to the year 2024 when the exemption was in place the entire year.

Comparing the year 2022 to the year 2024 there was a decrease of approximately \$1,235,000 in sales tax revenue

Officials from the **City of O'Fallon** note this would increase revenue for O'Fallon by approximately \$30,000 per year.

**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 2026 (9 Mo.)	FY 2027	FY 2028
<b>GENERAL REVENUE</b>			
<u>Revenue Gain - §144.054 - DOR 1% collection fee for local sales tax</u>	<u>\$264,485</u>	<u>\$352,646</u>	<u>\$352,646</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>\$264,485</u></b>	<b><u>\$352,646</u></b>	<b><u>\$352,646</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (9 Mo.)	FY 2027	FY 2028
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Gain</u> - §144.054 – Local sales tax on manufacturing	<u>\$26,183,945</u>	<u>\$34,911,927</u>	<u>\$34,911,927</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$26,183,945</u></b>	<b><u>\$34,911,927</u></b>	<b><u>\$34,911,927</u></b>

FISCAL IMPACT – Small Business

Certain small manufacturing businesses could be impacted by this proposal.

FISCAL DESCRIPTION

Currently, industries that use or consume:

- (1) Electrical energy and gas (whether natural or artificial);
- (2) Propane, water, coal, and energy sources;
- (3) Chemicals; and
- (4) Machinery, equipment, and materials;

in the manufacturing, processing, compounding, mining, or producing of any product, or use or consume such things in the processing of recovered materials, or use such things in research and development related to manufacturing, processing, compounding, mining, or producing any product, are exempt from local sales taxes, as described in the bill.

This bill repeals such exemption from local sales tax.

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

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SOURCES OF INFORMATION

Department of Revenue

Office of Administration - Budget and Planning

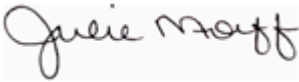
Missouri Department of Conservation

Department of Natural Resources

City of Kansas City

Ste. Genevieve County Treasurer

City of O'Fallon



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February 23, 2025



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February 23, 2025