

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0981H.01I
Bill No.: HB 648
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use;
Department of Revenue; Health Care
Type: Original
Date: January 15, 2025

Bill Summary: This proposal reduces the tax on diapers and feminine hygiene products.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|---|--|--|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| General Revenue | Could exceed (\$18,562,799)* | Could exceed (\$27,844,199) | Could exceed (\$27,844,199) |
| | | | |
| Total Estimated Net Effect on General Revenue | Could exceed (\$18,562,799)* | Could exceed (\$27,844,199) | Could exceed (\$27,844,199) |

*The fiscal impact for FY2026 is lesser because FY2026 is a partial year (8 months)

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2026 | FY 2027 | FY 2028 |
| | | | |
| | | | |
| 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 2026 | FY 2027 | FY 2028 |
| | | | |
| | | | |
| Local Government | \$0 | \$0 | \$0 |

FISCAL ANALYSIS

ASSUMPTION

Section 144.016 - Diaper Sales Tax Reduction

Officials from the **Department of Revenue (DOR)** note beginning October 1, 2025, the tax levied and imposed under Chapter 144 on all retail sales of kid's diapers and adult diapers shall be reduced to the same tax rate as on food. The current state sales tax rate is 4.225%. The current state tax rate is distributed as:

| | | |
|---------------------------------|-------|-----------------------------|
| General Revenue is | 3% | |
| School District Trust Fund is | 1% | (Section 144.701) |
| Conservation Commission Fund is | .125% | (Article IV, Section 43(a)) |
| Parks, Soil & Water Funds | .1% | (Article IV, Section 47(a)) |

By lowering the state sales tax rate to that on food, this proposal would eliminate the 3% general revenue state sales tax.

Kid Diapers

The Department notes that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from \$0.16 per diaper for generics to \$0.60 for name brand. Prices of diapers also depend on the size of the diaper. Estimates by various children's organizations indicate that an infant in the first year of life goes through 2,500 diapers. The next two years as toddlers they go through 1,500 diapers annually.

| Wearing Diaper | How Many | Low Price per Diaper | High Price per Diaper | Total Cost Low | Total Cost High |
|----------------------|----------|----------------------|-----------------------|----------------|-----------------|
| First Year (Size 1) | 2,500 | 0.16 | 0.31 | 400 | 775 |
| Second Year (Size 3) | 1,500 | 0.18 | 0.38 | 270 | 570 |
| Third Year (Size 5) | 1,500 | 0.29 | 0.60 | 435 | 900 |

Based on information from the MO Dept of Health & Senior Services, the average number of children born in the last three years, is 69,167. Given that 3 years' worth of children are wearing diapers in any one year (1 set of infants and 2 sets of toddlers) DOR estimates the following:

| | |
|-------------------------------|-------------|
| Births Annually | 69,167 |
| # of kids in Diapers Annually | 207,500 |
| # of Diapers Annually | |
| infant | 172,916,667 |
| toddler (2yrs) | 207,500,000 |
| total (kids * diapers) | 380,416,667 |

Since this would start October 1, 2025, and sales tax is remitted one month behind collection, this would result in 8 months collected in FY 2026. This would result in a loss to general revenue as follows:

| Fiscal Year | Low Impact | High Impact |
|---------------------|---------------|---------------|
| FY 2026 (8 months) | (\$1,528,583) | (\$3,105,583) |
| FY 2027 | (\$2,292,875) | (\$4,658,375) |
| FY 2028 | (\$2,292,875) | (\$4,658,375) |

Adult Diapers

Approximately one third of adults aged 65 and older have moderate to severe urinary incontinence and 6 percent had moderate to severe bowel incontinence. According to the United State Census Bureau 2020 population report, 1,077,757 individuals residing in Missouri were 65 or over. The Department notes that it is estimated that people with minor to moderate incontinence wear approximately 4 diapers per day while those with those with full urinary or fecal incontinence wear 6 diapers per day. The Department estimates that approximately 290,994 individuals aged 65 and over would utilize the four adult urinary incontinence diapers while 64,665 would wear 6 adult diapers daily.

The average cost for urinary incontinence diapers is \$1.33 per diaper.

| Number of people | # of Diapers | Days per year | Total Diapers per person | Price per diaper | Total Sales |
|------------------|--------------|---------------|--------------------------|------------------|-------------|
| 290,994 | 4 | 365 | 1460 | 1.33 | 565,052,907 |
| 64,665 | 6 | 365 | 2190 | 1.33 | 188,350,969 |
| | | | | | 753,403,875 |

Since this would start on October 1, 2025, and sales tax is remitted one month behind implementation, this would result in 8 months collected in FY 2026. This would result in a loss general revenue as follows:

| Fiscal Year | Impact |
|--------------------|----------------|
| FY 2026 (8 months) | (\$15,068,078) |
| FY 2027 | (\$22,602,116) |
| FY 2028 | (\$22,602,116) |

Section 144.016 Feminine Hygiene Sales Tax at Food Rate

This proposal will reduce the sales tax on feminine hygiene products to the same rate as food. Therefore, the general revenue 3% portion will no longer be collected.

Information from numerous sources indicates that a woman menstruates 500 times in her lifetime, usually between the ages of 12-51. The average length of a period is 3-7 days. Sources indicate that a woman uses the following:

| | Number per cycle | Number per year | Number in Box | Boxes per year |
|-------------------|------------------|-----------------|---------------|----------------|
| Tampons | 20 | 260 | 36 | 7.22 |
| Pads/Panty Liners | 5 | 65 | 36 | 1.81 |

Note a woman has 13 cycles a year (28 day cycle)/352 days a year.

The price per tampons and pads varies. DOR used a low and high price when determining the fiscal impact.

| | Price Low | Price High | Total Cost Low | Total Cost High |
|-------------------|-----------|------------|----------------|-----------------|
| Tampons | \$7.00 | \$10.00 | \$50.56 | \$72.22 |
| Pads/Panty Liners | \$7.00 | \$10.00 | \$12.64 | \$18.06 |
| | | | \$63.19 | \$90.28 |

Using information from the US Census Bureau (2020), DOR calculated the number of women having a period in Missouri (those between 12-51) as 1,555,626.

| | Total Cost Low | Total Cost High |
|-------------------------------|----------------|-----------------|
| Total estimated cost per year | \$98,306,921 | \$140,438,458 |

This proposal begins October 1, 2025 (FY 2026). Sales tax is remitted one month behind collection and therefore, this will impact state and local revenue for only 8 months in FY 2026.

| | | FY 2026 (8 months) | | FY 2027 + | |
|-----------------|----------|--------------------|---------------|---------------|---------------|
| | Tax Rate | Low | High | Low | High |
| General Revenue | 3.00% | (\$1,966,138) | (\$2,808,769) | (\$2,949,208) | (\$4,213,154) |

Summary of All Sales Tax Exemptions

This proposal will result in the need for DOR to do one time computer programming changes (\$1,832) and form changes (\$2,200). Therefore, this is estimated to cost \$4,032. Notification through various means will have to occur to notify the vendors to stop collecting tax on diapers.

This will reduce general revenue by the following:

| General Revenue | FY 2026 | | FY 2027 + | |
|------------------|----------------|----------------|----------------|----------------|
| | Low | High | Low | High |
| Child diapers | (\$1,528,583) | (\$3,105,583) | (\$2,292,875) | (\$4,658,375) |
| Adult diapers | (\$15,068,078) | (\$15,068,078) | (\$22,602,116) | (\$22,602,116) |
| Feminine Hygiene | (\$1,966,138) | (\$2,808,769) | (\$2,949,208) | (\$4,213,154) |
| Total GR Loss | (\$18,562,799) | (\$20,982,430) | (\$27,844,199) | (\$31,473,645) |

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 beginning October 1, 2025, this proposal would reduce the sales tax rate on diapers and feminine hygiene products.

Under this proposal, such items would be taxed at the same rate as food. B&P notes that food is exempt from the 3% state general revenue sales tax, but is still subject to the 1% education, 0.125% conservation, 0.1% DNR, and local sales taxes.

Feminine Hygiene Products

Based on information from multiple sites, B&P estimates that women purchase an average of 6.8 to 7.2 boxes of tampons (average price \$7 to \$15) and 1.7 to 1.8 boxes (average price \$6 to \$15) of pads and liners per year (using the average cycle length of 28 to 30 days). B&P was also able to determine that the average age for menstruation is 12-51 and based on data provided by the

United State Census 2023 population estimates (the most recent complete year available), there are approximately 1,565,677 woman between those ages residing in Missouri.

Therefore, B&P estimates total sales of \$89,953,942 (\$57.45 cost per year x 1,565,677 women) to \$212,601,230 (\$135.79 cost per year x 1,565,677 women) may be impacted by this proposal.

B&P estimates that this provision could reduce GR by \$2,698,618 to \$6,378,037 annually.

Diaper (Child) Sales Tax Exemption

Based on research, B&P found that the average amount spent on diapers was \$1,000 during the first year and then \$500 to \$900 per year until toilet trained. 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 the United State Census 2023 population estimates (the most recent complete year available), there were approximately 206,138 children living in Missouri ages 0-2 years old, with 67,996 being less than one year old.

Therefore, B&P estimates total sales of \$137,067,000 [(67,996 infants x \$1,000 cost per year) + (138,142 toddlers x \$500 cost per year)] up to \$184,035,280 [(67,996 infants x \$1,000 cost per year) + (138,142 toddlers x \$900 cost per year)] may be impacted by this proposal.

B&P estimates that this provision could reduce GR by \$4,112,010 to \$5,521,058 annually.

Diaper (Adult) Sales Tax Exemption

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 to the United State Census 2023 population (the most recent complete year available) estimates there were approximately 1,136,615 individuals residing in Missouri age 65 and over.

Based on these numbers, B&P estimates that approximately 284,154 (1,136,615 x 25%) individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 90,929 (1,136,615 x 8%) 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 \$100 to \$240 per month, for a yearly cost of \$1,200 to \$2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is \$70 to \$210 per month, for a yearly cost of \$840 to \$2,520.

B&P estimates that total annual sales for urinary incontinence adult diapers could be approximately \$340,984,500 (284,154 people x \$1,200 annual cost) up to \$818,362,800 (284,154 people x \$2,880 annual cost).

B&P further estimates that the total annual sales for bowel incontinence adult diapers could be \$76,380,528 (90,929 people x \$840 annual cost) up to \$229,141,584 (90,929 people x \$2,520 annual cost).

Therefore, B&P estimates total sales of \$417,365,028 (\$340,984,500 urinary incontinence + \$76,380,528 bowl incontinence) up to \$1,047,504,384 (\$818,362,800 urinary incontinence + \$229,141,584 bowl incontinence) may be impacted by this proposal.

B&P estimates that this provision could reduce GR by \$12,520,951 to \$31,425,132 annually.

Summary

B&P estimates that this proposal could reduce TSR and GR by \$12,887,719 to \$28,882,818 in FY26. Once fully implemented, this proposal could reduce TSR and GR by \$19,331,579 to \$43,324,227 annually.

Table 1: Loss to GR by Provision

| State Fund | FY26 | | FY27+ | |
|---------------------------|----------------|----------------|----------------|----------------|
| | Low | High | Low | High |
| General Revenue | | | | |
| Diapers - Child | (\$2,741,340) | (\$3,680,706) | (\$4,112,010) | (\$5,521,058) |
| Diapers - Adult | (\$8,347,301) | (\$20,950,088) | (\$12,520,951) | (\$31,425,132) |
| Feminine Hygiene Products | (\$1,799,079) | (\$4,252,025) | (\$2,698,618) | (\$6,378,037) |
| Total GR Loss | (\$12,887,719) | (\$28,882,818) | (\$19,331,579) | (\$43,324,227) |

Oversight notes officials from B&P and DOR have conducted independent research and both assume the proposal will have a direct fiscal impact on state revenues. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a fiscal impact that could exceed DOR's estimated impacts in the fiscal note.

| <u>FISCAL IMPACT – State Government</u> | FY 2026 (8 Mo.) | FY 2027 | FY 2028 |
|--|--------------------------------|--------------------------------|--------------------------------|
| | | | |
| GENERAL REVENUE FUND | | | |
| | | | |
| <u>Revenue Reduction</u> - §144.016 - Reduction of sales tax rate on child diapers | Could exceed (\$1,528,583) | Could exceed (\$2,292,875) | Could exceed (\$2,292,875) |
| | | | |
| <u>Revenue Reduction</u> - §144.016 - Reduction of sales tax rate on adult diapers | Could exceed (\$15,068,078) | (Could exceed \$22,602,116) | Could exceed (\$22,602,116) |

| <u>FISCAL IMPACT – State Government</u> | FY 2026 (8 Mo.) | FY 2027 | FY 2028 |
|---|---|---|---|
| | | | |
| <u>Revenue Reduction - §144.016 -</u> Reduction of sales tax rate on feminine hygiene products | <u>Could exceed</u> (\$1,966,138) | <u>Could exceed</u> (\$2,949,208) | <u>Could exceed</u> (\$2,949,208) |
| | | | |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>Could exceed</u> (\$18,562,799) | <u>Could exceed</u> (\$27,844,199) | <u>Could exceed</u> (\$27,844,199) |

| <u>FISCAL IMPACT – Local Government</u> | FY 2026 (8 Mo.) | FY 2027 | FY 2028 |
|---|--------------------|-------------------|-------------------|
| | | | |
| | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |

FISCAL IMPACT – Small Business

Small businesses that sell feminine hygiene products and/or diapers would have to collect a different sales tax rate on these items.

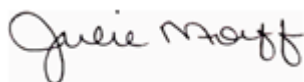
FISCAL DESCRIPTION

The proposed legislation reduces the tax on diapers and feminine hygiene products.

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



Julie Morff
Director
January 15, 2025



Jessica Harris
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January 15, 2025