

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1429H.02P
Bill No.: Perfected HCS for HB 999
Subject: Taxation and Revenue - Property; Property, Real and Personal; State Tax
Commission; Counties; Department of Revenue
Type: Original
Date: March 5, 2025

Bill Summary: This proposal modifies provisions relating to the state tax commission's equalization authority and enforcement authority, authorizing withholding of certain revenues as a result of noncompliance.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*Cost/transfer to the Legal Expense Fund for interest on payments withheld in error.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
County Assessment Noncompliance Trust Fund*	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
Legal Expense Fund (0692)**	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown

*Oversight assumes the State will keep the interest earned on the withheld funds released under this proposal if not found to be wrongfully withheld. Oversight does not anticipate this will reach \$250,000. Other payments withheld and then returned net to zero.

**Transfers in less costs net to zero.

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 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*Oversight assumes the Locals will lose the interest earned on the withheld funds released under this proposal if not found to be wrongfully withheld. Other withheld payments/interest earned and then returned net to zero.

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, **Oversight** was unable to receive some agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Section 138.425 - State Tax Commission's Enforcement Authority

Officials from the **Department of Revenue (DOR)** assume in Section 138.425.2 this proposal states that if a county fails to comply with the State Tax Commission directive, they will be considered to have violated the law. If a violation occurs the State Tax Commission is to notify the Department of Revenue (DOR). DOR is to withhold any and all local distributions of the county's sales and use tax up to 100% of their violation, until notified the county is in compliance again.

DOR notes this would be a manual process completed by the department's tax team. They would need to manually key records during the time distributions are stopped. It should be noted that once DOR is notified that a distribution can restart, the release of funds would not be until the following month during the distribution period. The Department assumes it can absorb this requirement with existing staff. Should the number of holds on distribution become justified to need new FTE, then DOR will seek them through the appropriations process.

DOR notes that should the State Tax Commission error in the calculation of the withhold, this proposal indicates interest would be owed. DOR assumes the State Tax Commission will be responsible for applying to the state legal expense fund for payment of the interest as they are responsible for all calculations and notices.

Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the 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 **State Tax Commission (STC)** have reviewed this proposal and determined that it could have a negative impact on the legal expense fund if the judiciary ruled in the county's favor and required the commission to pay interest on any sales taxes withheld. The STC believes that any cost associated to promulgate rules can be absorbed under its current budget.

Oversight notes that Section 138.425. 6., denotes if the court upon determination, as to the amount of local sales tax proceeds withheld or failure to comply is in error, the court shall return

the amount in error to the county and the judgment, when entered, shall include interest on the amounts wrongfully withheld to be paid by the Legal Expense Fund.

Oversight notes this fiscal impact would only occur should the State Tax Commission error in the calculation of the proposed withholding of local sales tax.

Oversight notes this proposal allows the DOR to withhold local sales tax proceeds in an amount equal to one hundred percent of the moneys the county would otherwise be entitled to from local sales tax and retain the interest earned (if not wrongfully withheld).

Oversight notes the fiscal impact would be entirely dependent on the number of violations and the amount of sales tax withheld and interest retained; therefore, the impact is ultimately unknown. For simplicity, Oversight assumes any funds withheld would be repaid within the same fiscal year. Oversight assumes the impact to the State would be the interest earned and retained (if not wrongfully withheld), the cost to the Legal Expense Fund for the repayment of interest (transferred from GR), and the net impact to locals would be a loss of the interest retained by the State (if funds were not wrongfully withheld).

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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS 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 the SOS for Administrative Rules is less than \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with its core budget. Therefore, the SOS reserves 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.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVNUUE FUND			
<u>Transfer Out - \$138.425 – to Legal Expense Fund for repayment of interest on amounts wrongfully withheld</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND*	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
LEGAL EXPENSE FUND (0692)			
<u>Transfer In – from General Revenue</u>	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Costs - \$138.425 – repayment of interest on amounts wrongfully withheld</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO LEGAL EXPENSE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
COUNTY ASSESSMENT NONCOMPLIANCE TRUST FUND			
<u>Potential Revenue Gain - \$138.425 potential withholding of local sales/use tax, if noncompliant plus interest earned</u>	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Potential Revenue Loss - \$138.425 repayment of withholding of local sales/use tax, if compliance is achieved</u>	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO COUNTY ASSESSMENT NONCOMPLIANCE TRUST FUND*	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>	<u>\$0 to Unknown</u>

*Oversight assumes the net impact to the State will be the interest earned on the withheld funds released under this proposal if not found to be erroneously withheld. Other payments withheld and then returned net to zero.

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
LOCAL POLITICAL SUBDIVISIONS			
<u>Potential Revenue Loss</u> - §138.425 potential withholding of local sales tax, if noncompliant plus interest lost	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Potential Revenue Gain</u> - §138.425 repayment of withholding of local sales tax, if compliance is achieved	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<u>Potential Revenue Gain</u> - §138.425 – interest returned on amounts wrongfully withheld	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*Oversight assumes the Locals will lose the interest earned on the withheld funds released under this proposal if not found to be erroneously withheld. Other withheld payments/interest earned and then returned net to zero.

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Currently, the State Tax Commission (STC) has the power to issue orders to county assessors and Boards of Equalization. This bill provides that when an order is issued by the STC that requires a county to comply with state law by modifying or equalizing assessed valuations, and those modifications result in a reduction of the assessed valuations, the county is allowed a minimum of 90 days to come into compliance. The order must state the deadline for compliance, but the STC may extend the deadline upon the county's request.

If the county fails to comply, the STC may direct the Department of Revenue (DOR) to withhold local sales tax moneys that the county would otherwise be entitled to. The withholding will remain in effect until the STC determines that the county has come into compliance with the order.

The amount of local sales tax that may be withheld must equal 110% of the total dollar amount of the improper assessments that were in excess of the statutorily allowed amounts. The STC must notify the county of the withholding and provide information on how the county may cure the non-compliance in order to release the withheld revenue.

If the noncompliant county comes into compliance, the STC must notify DOR that it may release and remit the previously withheld local sales tax revenue to the county. A county is not entitled to interest on the withheld funds.

A county may seek judicial review of the STC's determination of non-compliance.

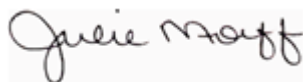
If the STC determines that a county is non-compliant, and the determination results in the withholding of sales tax revenue, the county may seek judicial review of that determination within 30 days.

If the court subsequently finds that the STC's determinations were made in error, the court must order that the amount of sales tax revenue withheld be returned to the county, with interest on the amounts wrongfully withheld. A county is not entitled to interest if the court upholds the STC's determinations.

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

State Tax Commission
Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Revenue



Julie Morff
Director
March 5, 2025



Jessica Harris
Assistant Director
March 5, 2025