

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1727H.011
 Bill No.: HB 743
 Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Tax Incentives;
 Internet and E-Mail; Utilities
 Type: Original
 Date: February 10, 2025

Bill Summary: This proposal authorizes a sales tax exemption for certain broadband equipment.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue	Could exceed (\$2,073,994)	Could exceed (\$4,977,586)	Could exceed (\$4,977,586)
Total Estimated Net Effect on General Revenue	Could exceed (\$2,073,994)*	Could exceed (\$4,977,586)	Could exceed (\$4,977,586)

*Oversight notes the fiscal impact for FY2026 is lesser because FY2026 is a partial year (5 months).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
School District Trust Fund (0688)	Could exceed (\$691,331)	Could exceed (\$1,659,195)	Could exceed (\$1,659,195)
Conservation Commission Fund (0609)	Could exceed (\$86,416)	Could exceed (\$207,399)	Could exceed (\$207,399)
Parks and Soils State Sales Tax Fund(s) (0613 & 0614)	Could exceed (\$69,133)	Could exceed (\$165,920)	Could exceed (\$165,920)
Total Estimated Net Effect on <u>Other</u> State Funds	Could exceed (\$846,881)*	Could exceed (\$2,032,514)	Could exceed (\$2,032,514)

*Oversight notes the fiscal impact for FY2026 is lesser because FY2026 is a partial year (5 months).

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	Could exceed (\$3,083,338)*	Could exceed (\$7,400,011)	Could exceed (\$7,400,011)

*Oversight notes the fiscal impact for FY2026 is lesser because FY2026 is a partial year (5 months).

FISCAL ANALYSIS

ASSUMPTION

Section 144.812 - Sales Tax Exemption for Certain Broadband Equipment

Officials from the **Department of Revenue (DOR)** note this will provide a sales tax exemption for all machinery and equipment used to provide broadband communication services. DOR is unable to determine how much of the product outlined in this proposal is sold annually in Missouri.

DOR, however, can find data on the amount of federal grants received by broadband providers. Below is a chart of the federal grants received in Missouri and split between labor costs and estimated equipment costs. Based on additional research the department knows that about 60% of broadband production costs is labor. Therefore, DOR assumes the grants are split as follows:

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	\$364,851,264	\$218,910,758	\$145,940,506
2024	\$457,790,308	\$274,674,185	\$183,116,123
2025	\$421,776,466	\$253,065,880	\$168,710,586
2026	\$395,565,663	\$237,339,398	\$158,226,265

DOR notes that these grants are given to install and create a broadband network. It should be noted that these networks will take ongoing maintenance in future years. Therefore, any impact projected estimate could be exceeded.

DOR notes that the amount of funding spent on broadband in the future is unknown. As shown above the amount of funding can vary widely year over year. For the fiscal note, DOR will show the impact for each year as the lowest year (2019) to the highest year (2024) of grants received in Missouri.

The exemption will begin on January 1, 2026. Using the data above DOR estimates the impact as follows:

Estimated Sales Tax Loss by Tax Year

		TY 2026 +	
		Low	High
	Est. Investment	\$12,120,568	\$183,116,123
General			
Revenue	3%	(\$363,617)	(\$5,493,484)
School District	1%	(\$121,206)	(\$1,831,161)
Conservation	0.125%	(\$15,151)	(\$228,895)
Park, Soil & Water	0.10%	<u>(\$12,121)</u>	<u>(\$183,116)</u>
TSR		(\$512,095)	(\$7,736,656)
Local Sales Tax	4.46%	(\$540,577)	(\$8,166,979)

It should be noted that sales tax is remitted one month behind collection and therefore this will impact state revenue for only 5 months in FY 2026. When converting from tax year to fiscal year the department uses a 50% in the first year and 50% in the second fiscal year.

Estimated Sales Tax Loss by Fiscal Year

<u>State Funds</u>	FY 2026 (5 months)		FY 2027+	
	Low	High	Low	High
General Revenue	(\$151,507)	(\$2,288,952)	(\$363,617)	(\$5,493,484)
School District	(\$50,503)	(\$762,984)	(\$121,206)	(\$1,831,161)
Conservation	(\$6,313)	(\$95,373)	(\$15,151)	(\$228,895)
Park, Soil & Water	(\$5,050)	(\$76,298)	(\$12,121)	(\$183,116)
Total State Revenues	(\$213,373)	(\$3,223,607)	(\$512,095)	(\$7,736,656)
<u>Local Funds</u>				
Local Sales Tax	(\$225,240)	(\$3,402,908)	(\$540,577)	(\$8,166,979)

This will require DOR to update the department's forms (\$2,200), the department's website and the department's computer programs (\$7,327).

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 **Office of Administration - Budget and Planning (B&P)** note beginning tax year 2026, 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	\$457,790,308	\$274,674,185	\$183,116,123
2025	\$421,776,466	\$253,065,880	\$168,710,586
2026	\$395,565,663	\$237,339,398	\$158,226,265

B&P notes that total investment amounts for 2026 and later are not yet known. Therefore, for tax year 2026, B&P will reflect the potential loss as the range between current known grants and the highest amount awarded (TY 2024). For tax years 2027 and later, B&P will reflect a range between the lowest (TY 2019) and highest (TY 2024) grant years.

Using only the portion of the federal grants used on the purchase of equipment (i.e. 40%), B&P estimates that this proposal could exempt between \$158,226,265 and \$183,116,123 in taxable sales during calendar year 2026. For calendar years 2027 and beyond, B&P estimates that this proposal could exempt \$12,120,568 to \$183,116,123 from taxable sales annually. Table 2 shows the estimated impact by calendar year.

Table 2: Estimated Sales Tax Loss by Calendar Year

<u>State Funds</u>	CY 2026		CY 2027 +	
	Low	High	Low	High
General Revenue	(\$4,746,788)	(\$5,493,484)	(\$363,617)	(\$5,493,484)
Education	(\$1,582,263)	(\$1,831,161)	(\$121,206)	(\$1,831,161)
Conservation	(\$197,783)	(\$228,895)	(\$15,151)	(\$228,895)
DNR	(\$158,226)	(\$183,116)	(\$12,121)	(\$183,116)
Total State Revenues	(\$6,685,060)	(\$7,736,656)	(\$512,095)	(\$7,736,656)
<u>Local Funds</u>				
Local Sales Tax	(\$7,056,891)	(\$8,166,979)	(\$540,577)	(\$8,166,979)

Based on historical sales tax data, sales tax collections in a calendar year are split 50/50 between fiscal years, with revenue distributions running one month behind collections. Therefore, B&P estimates that this proposal could reduce TSR by an amount that could exceed \$2,785,442 to \$3,223,607 in FY26. In future years, this proposal could reduce TSR by an amount that may exceed \$512,095 to \$7,736,656 annually. Table 3 shows the estimated impact by fiscal year.

Table 3: Estimated Sales Tax Loss by Fiscal Year

<u>State Funds</u>	FY 2026		FY 2027	
	Low	High	Low	High
General Revenue	(\$1,977,828)	(\$2,288,952)	(\$363,617)	(\$5,493,484)
Education	(\$659,276)	(\$762,984)	(\$121,206)	(\$1,831,161)
Conservation	(\$82,410)	(\$95,373)	(\$15,151)	(\$228,895)
DNR	(\$65,928)	(\$76,298)	(\$12,121)	(\$183,116)
Total State Revenues	(\$2,785,442)	(\$3,223,607)	(\$512,095)	(\$7,736,656)
<u>Local Funds</u>				
Local Sales Tax	(\$2,940,371)	(\$3,402,908)	(\$540,577)	(\$8,166,979)

Oversight notes using the data provided by Office of Administration - Budget and Planning, the average amount of federal grants used on the purchase of equipment from 2023-2025 was \$165,919,538. For purposes of this fiscal note, Oversight assumes this proposal could exempt at least \$165,919,538 in taxable sales each year. Oversight notes the following estimated impact by fund/fiscal year:

Fund	FY 2026 (5 months)	FY 2027+
General Revenue	(\$2,073,994)	(\$4,977,586)
School District Trust Fund	(\$691,331)	(\$1,659,195)
Conservation	(\$86,416)	(\$207,399)
Parks & Soils	(\$69,133)	(\$165,920)
Locals	(\$3,083,338)	(\$7,400,011)

Oversight is unable to determine the amount of qualifying items sold in the future, therefore, Oversight will show a fiscal impact that could exceed the figures 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 fiscal impact estimated above for DNR’s funds.

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 fiscal impact estimated above for MDC’s funds.

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

Oversight notes the above local political subdivision stated this proposal would have a negative fiscal impact on their respective city of an indeterminate amount. Oversight assumes the proposed sales tax exemption may decrease the amount of sales tax revenue distributed to various local political subdivisions. Therefore, Oversight will note the fiscal impact estimated above for all local political subdivisions on 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 2026 (5 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
<u>Revenue Reduction</u> - §144.812 - Sales tax exemption for certain broadband equipment	<u>Could exceed</u> (\$2,073,994)	<u>Could exceed</u> (\$4,977,586)	<u>Could exceed</u> (\$4,977,586)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed</u> (\$2,073,994)	<u>Could exceed</u> (\$4,977,586)	<u>Could exceed</u> (\$4,977,586)
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.812 - Sales tax exemption for certain broadband equipment	<u>Could exceed</u> (\$691,331)	<u>Could exceed</u> (\$1,659,195)	<u>Could exceed</u> (\$1,659,195)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	<u>Could exceed</u> (\$691,331)	<u>Could exceed</u> (\$1,659,195)	<u>Could exceed</u> (\$1,659,195)
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - §144.812 - Sales tax exemption for certain broadband equipment	<u>Could exceed</u> (\$86,416)	<u>Could exceed</u> (\$207,399)	<u>Could exceed</u> (\$207,399)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>Could exceed</u> (\$86,416)	<u>Could exceed</u> (\$207,399)	<u>Could exceed</u> (\$207,399)
PARKS AND SOILS STATE SALES TAX FUNDS			

<u>FISCAL IMPACT – State Government</u>	FY 2026 (5 Mo.)	FY 2027	FY 2028
<u>Revenue Reduction</u> - §144.812 - Sales tax exemption for certain broadband equipment	<u>Could exceed</u> <u>(\$69,133)</u>	<u>Could exceed</u> <u>(\$165,920)</u>	<u>Could exceed</u> <u>(\$165,920)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS	<u>Could exceed</u> <u>(\$69,133)</u>	<u>Could exceed</u> <u>(\$165,920)</u>	<u>Could exceed</u> <u>(\$165,920)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (5 Mo.)	FY 2027	FY 2028
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction</u> - §144.812 - Sales tax exemption for certain broadband equipment	<u>Could exceed</u> <u>(\$3,083,338)</u>	<u>Could exceed</u> <u>(\$7,400,011)</u>	<u>Could exceed</u> <u>(\$7,400,011)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>Could exceed</u> <u>(\$3,083,338)</u>	<u>Could exceed</u> <u>(\$7,400,011)</u>	<u>Could exceed</u> <u>(\$7,400,011)</u>

FISCAL IMPACT – Small Business

Certain small businesses that sell certain broadband equipment would no longer need to collect sales tax on these items.

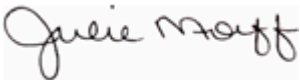
FISCAL DESCRIPTION

Beginning January 1, 2026, 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

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



Julie Morff
Director
February 10, 2025



Jessica Harris
Assistant Director
February 10, 2025