

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 7221H.03P
 Bill No.: Perfected HCS for HB 3308
 Subject: Taxation and Revenue - Sales and Use; Taxation and Revenue - General
 Type: Original
 Date: March 11, 2026

Bill Summary: This proposal authorizes a sales tax exemption for certain purchases of materials and equipment.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue*	(Could exceed \$14,252,223)	(Could exceed \$18,967,930)	(Could exceed \$18,967,930)
Total Estimated Net Effect on General Revenue	(Could exceed \$14,252,223)*	(Could exceed \$18,967,930)	(Could exceed \$18,967,930)

*Oversight notes the fiscal impact for FY2027 is lesser because FY2027 is a partial year (9 months).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
School District Trust Fund (1688)	(Up to \$4,722,393)	(Up to \$6,296,524)	(Up to \$6,296,524)
Conservation Commission Fund (1609)	(Up to \$590,299)	(Up to \$787,065)	(Up to \$787,065)
Parks and Soils State Sales Tax Fund(s) (1613 & 1614)	(Up to \$472,239)	(Up to \$629,652)	(Up to \$629,652)
Total Estimated Net Effect on Other State Funds*	(Up to \$5,784,931)*	(Up to \$7,713,241)	(Up to \$7,713,241)

*Oversight notes the fiscal impact for FY2027 is lesser because FY2027 is a partial year (9 months).

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS

FUND AFFECTED	FY 2027	FY 2028	FY 2029
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)

FUND AFFECTED	FY 2027	FY 2028	FY 2029
General Revenue - DOR	1 FTE	1 FTE	1 FTE
Total Estimated Net Effect on FTE	1 FTE	1 FTE	1 FTE

- 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 2027	FY 2028	FY 2029
Local Government	(Up to \$22,195,247)	(Up to \$29,593,662)	(Up to \$29,593,662)

*Oversight notes the fiscal impact for FY2027 is lesser because FY2027 is a partial year (9 months).

FISCAL ANALYSIS

ASSUMPTION

§144.054 - Sales Tax Exemption for Certain Purchases of Materials and Equipment

Officials from the **Department of Revenue (DOR)** note in Section 144.020 items that are sold are subject to state and local sales and use tax unless specifically excluded by statute. The state sales tax is 4.225%. That sales tax is broken down as:

General Revenue	3%
School District	1%
Conservation Commission	.125
Parks, Soil & Water Funds	.1%

DOR uses a 4.7% rate when calculating local sales tax.

This proposal creates an exemption for sales and purchases of equipment and materials purchased by a contractor or subcontractor for the purpose of making public improvements to real property and public facilities that are part of an approved development plan that will be conveyed by deed to the U.S Government, State or any local political subdivision. This legislation specifically excludes the collection of both the state and local sales tax.

DOR notes that many materials used by contractors that are working on a project paid for by a political subdivision already have this sales tax exemption under Section 144.062. This appears to expand the exemption to projects that will be conveyed.

DOR is unable to estimate the amount of construction that will be conveyed to the state or to local political subdivisions. DOR notes that any purchases eligible for this exemption would result in a loss to the state sales tax funds as well as to local sales tax funds. DOR notes that for each \$250,000 in supplies purchased, the state would lose \$10,563 in state sales tax. Additionally, local tax would be lost. DOR is unable to determine the impact of this proposal given the unknowns, but DOR estimates that it could potentially exceed \$250,000 annually.

In order to implement, DOR would create an application that eligible builders could complete to apply for a sales tax exemption letter. That application is estimated to cost \$2,200. DOR would need an Associate Customer Service Representative (\$42,953 salary plus years of service pay) to administer this program. The FTE would be responsible for maintaining the list of participating projects and making sure the eligible builders use the supplies for their projects.

DOR notes this would require us to update the department's sales tax collection and distribution computer programs at a cost of \$5,661.

Oversight does not have information to the contrary and therefore, Oversight will reflect the FTE costs as provided by the Department of Revenue.

Officials from the **Office of Administration - Budget and Planning** note starting August 28, 2026, this proposal would grant a sales tax exemption for items purchased by contractors and sub-contractors working on construction and improvements to real property that will subsequently be transferred to the federal, state, or other political subdivision.

Based on data published by the U.S. Census Bureau, Associated General Contractors, and AIA, B&P estimates that the following NAICS codes could have at least a portion of sales taxes exempted under this proposal.

NAICS	Description	FY 2025 Taxable Sales	% Public	Qualifying Taxable Sales
236116	NEW MULTIFAMILY HOUSING CONSTRUCTION (EXCEPT FOR-SALE BUILDERS)	\$0	2%	\$0
236210	INDUSTRIAL BUILDING CONSTRUCTION	\$14,551,783	2%	\$291,036
236220	COMMERCIAL AND INSTITUTIONAL BUILDING CONSTRUCTION	\$114,827,451	35%	\$40,189,608
237110	WATER AND SEWER LINE AND RELATED STRUCTURES CONSTRUCTION	\$32,353,524	87%	\$28,147,566
237120	OIL AND GAS PIPELINE AND RELATED STRUCTURES CONSTRUCTION	\$13,097,932	1%	\$130,979
237130	POWER AND COMMUNICATION LINE AND RELATED STRUCTURES CONSTRUCTION	\$8,852,967	25%	\$2,213,242
237210	LAND SUBDIVISION	\$0	5%	\$0
237310	HIGHWAY, STREET, AND BRIDGE CONSTRUCTION	\$285,581,313	98%	\$279,869,686
237990	OTHER HEAVY AND CIVIL ENGINEERING CONSTRUCTION	\$41,559,416	90%	\$37,403,474
238110	POURED CONCRETE FOUNDATION AND STRUCTURE CONTRACTORS	\$32,970,361	22%	\$7,253,479
238120	STRUCTURAL STEEL AND PRECAST CONCRETE CONTRACTORS	\$5,819,168	30%	\$1,745,750
238130	FRAMING CONTRACTORS	\$0	5%	\$0
238140	MASONRY CONTRACTORS	\$18,015,887	20%	\$3,603,177
238150	GLASS AND GLAZING CONTRACTORS	\$9,089,902	25%	\$2,272,475
238160	ROOFING CONTRACTORS	\$15,557,608	15%	\$2,333,641
238170	SIDING CONTRACTORS	\$0	5%	\$0
238190	OTHER FOUNDATION, STRUCTURE, AND BUILDING EXTERIOR CONTRACTORS	\$12,521,538	20%	\$2,504,308
238210	ELECTRICAL CONTRACTORS AND OTHER WIRING INSTALLATION CONTRACTORS	\$41,149,984	25%	\$10,287,496

238220	PLUMBING, HEATING, AND AIR-CONDITIONING CONTRACTORS	\$143,246,919	20%	\$28,649,384
238290	OTHER BUILDING EQUIPMENT CONTRACTORS	\$17,229,984	10%	\$1,722,998
238310	DRYWALL AND INSULATION CONTRACTORS	\$10,285,401	10%	\$1,028,540
238320	PAINTING AND WALL COVERING CONTRACTORS	\$4,149,722	15%	\$622,458
238330	FLOORING CONTRACTORS	\$20,731,130	12%	\$2,487,736
238340	TILE AND TERRAZZO CONTRACTORS	\$0	25%	\$0
238350	FINISH CARPENTRY CONTRACTORS	\$3,077,999	5%	\$153,900
238390	OTHER BUILDING FINISHING CONTRACTORS	\$54,903,268	18%	\$9,882,588
238910	SITE PREPARATION CONTRACTORS	\$231,007,955	40%	\$92,403,182
238990	ALL OTHER SPECIALTY TRADE CONTRACTORS	\$248,185,626	30%	\$74,455,688
Total		\$1,378,766,836		\$629,652,391

Of the \$1.38 billion in total construction related taxable sales, B&P estimates that up to \$629.7 million could become exempted under this proposal.

Therefore, B&P estimates that this proposal could reduce GR by up to \$18,889,572 annually. In addition, this proposal could reduce local sales tax collections by up to \$29,593,662 annually.

Table 2: Estimated Impact by State Fund

<u>State Fund</u>	<u>FY 2027</u>	<u>FY 2028+</u>
General Revenue	(\$14,167,179)	(\$18,889,572)
Education (SDTF)	(\$4,722,393)	(\$6,296,524)
Conservation	(\$590,299)	(\$787,065)
DNR	(\$472,239)	(\$629,652)
Total State Funds	(\$19,952,110)	(\$26,602,813)

Table 2 cont.: Estimated Impact to Local Funds

<u>Local Funds</u>	<u>FY 2027</u>	<u>FY 2028+</u>
Local Sales Tax	(\$22,195,247)	(\$29,593,662)

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the Office of Administration - Budget and Planning.

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 deferred 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 proposal may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will show DOR's estimates for MDC's funds.

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 proposal may decrease the amount of sales tax revenue distributed to this fund. Therefore, Oversight will show DOR's estimates for MDC's funds.

In response to a previous version, officials from the **City of Kansas City** assumed the proposed legislation had a negative fiscal impact of an indeterminate amount.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. Upon the receipt of additional 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. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2027 (9 Mo.)	FY 2028	FY 2029
GENERAL REVENUE			
<u>Revenue Loss</u> – (§144.054) Sales tax exemption for certain purchases of materials and equipment p.3	(Up to \$14,167,179)	(Up to \$18,889,572)	(Up to \$18,889,572)
<u>Cost – DOR</u> (§144.054) p.3			
Personal Service	(\$35,794)	(\$43,812)	(\$44,688)
Fringe Benefits	(\$28,010)	(\$33,957)	(\$34,310)
Expense & Equipment	(\$21,240)	(\$589)	(\$600)
<u>Total Costs – DOR</u>	<u>(\$85,044)</u>	<u>(\$78,358)</u>	<u>(\$79,598)</u>
FTE Change – DOR	1 FTE	1 FTE	1 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE	(Could exceed \$14,252,223)	(Could exceed \$18,967,930)	(Could exceed \$18,967,930)
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
SCHOOL DISTRICT TRUST FUND (1688)			
<u>Revenue Loss</u> – (§144.054) Sales tax exemption for certain purchases of materials and equipment p.3	(Up to \$4,722,393)	(Up to \$6,296,524)	(Up to \$6,296,524)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND (1688)	(Up to \$4,722,393)	(Up to \$6,296,524)	(Up to \$6,296,524)
CONSERVATION COMMISSION FUND (1609)			
<u>Revenue Loss</u> – (§144.054) Sales tax exemption for certain purchases of materials and equipment p.3	(Up to \$590,299)	(Up to \$787,065)	(Up to \$787,065)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND (1609)	(Up to \$590,299)	(Up to \$787,065)	(Up to \$787,065)

<u>FISCAL IMPACT – State Government</u>	FY 2027 (9 Mo.)	FY 2028	FY 2029
PARKS AND SOILS STATE SALES TAX FUNDS (1613 & 1614)			
<u>Revenue Loss</u> – (§144.054) Sales tax exemption for certain purchases of materials and equipment p.3	(Up to <u>\$472,239</u>)	(Up to <u>\$629,652</u>)	(Up to <u>\$629,652</u>)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS (1613 & 1614)	(Up to <u>\$472,239</u>)	(Up to <u>\$629,652</u>)	(Up to <u>\$629,652</u>)

<u>FISCAL IMPACT – Local Government</u>	FY 2027 (10 Mo.)	FY 2028	FY 2029
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss</u> – (§144.054) Sales tax exemption for certain purchases of materials and equipment p.3	(Up to <u>\$22,195,247</u>)	(Up to <u>\$29,593,662</u>)	(Up to <u>\$29,593,662</u>)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(Up to <u>\$22,195,247</u>)	(Up to <u>\$29,593,662</u>)	(Up to <u>\$29,593,662</u>)

FISCAL IMPACT – Small Business

Certain small businesses that sell and/or purchase certain equipment and materials could be impacted by this proposal.

FISCAL DESCRIPTION

This bill exempts from sales and use tax all sales and purchases of equipment and materials by a contractor or subcontractor for development and construction of improvements to real property that will, under an approved development plan, be deeded to the United States government, the State, or any county, municipality, or other political subdivision of the State.

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
March 11, 2026



Jessica Harris
Assistant Director
March 11, 2026