COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0345-08
Bill No.: HCS for SCS for SB 11
Subject: Taxation and Revenue - Income, Sales and Use; Counties, Cities
Type: Original
Date: May 6, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	$17,702,141 to Unknown	$7,667,219 to Unknown	$9,522,283 to Unknown
Total Estimated Net Effect on General Revenue Fund	**$17,702,141 to UNKNOWN**	**$7,667,219 to UNKNOWN**	**$9,522,283 to UNKNOWN**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Pharmacy Tax	$31,494,070	$31,490,334	$31,490,334
Various State Funds	Unknown	Unknown	Unknown
School District Trust	($474,247)	($583,315)	$0
Conservation	($59,281)	($72,914)	$0
Parks and Soil	($47,425)	($58,332)	$0
Total Estimated Net Effect on Other State Funds	**$30,913,117 to UNKNOWN**	**$30,775,773 to UNKNOWN**	**$31,490,334 to UNKNOWN**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 22 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal*	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

*Savings and Loss of approximately $80,000 annually would net to $0.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**(UNKNOWN) to UNKNOWN**	**(UNKNOWN) to UNKNOWN**	**(UNKNOWN) to UNKNOWN**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Missouri House of Representatives** and the **Missouri Senate** assume this proposal would not fiscally impact their agencies.

Officials of the **Office of Administration - Division of Accounting (COA)** assume this version makes changes to the Joint Committee on Tax Policy. Section 144.049(3), RSMo changes the taxable value of school supplies from $100 to $200. Section 144.049(3)2, RSMo, includes computer software as exempted from state sales tax during sales tax holiday in August. Section 313.826, RSMo changes gambling winnings withheld for state income tax purposes from $600 to $1,200. COA assumes this substitute would have no fiscal impact on their agency.

Officials of the **Office of Administration - Division of Purchasing (DPMM)** assume this legislation would require that DPMM would not contract for goods and services with a vendor if the vendor or an affiliate of the vendor makes sales at retail of tangible personal property or for the purpose of storage, use, or consumption in this state but fails to collect and properly pay their tax liabilities.

In addition, DPMM's Director would be required to check at least one time each year the status of every employee within the division against a database developed by the director of revenue to determine if all state tax returns have been filed and all state taxes owed have been paid.

ASSUMPTION (continued)

This legislation would apply to all of the contracts awarded by DPMM. To ensure that all the additional requirements of this legislation are met, DPMM would need one additional Buyer III position.

Officials of the **Office of Administration - Division of Budget and Planning (BAP)** assume this proposal would allow for a sales tax "holiday" for a specified period for specified items.

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.8% of U.S. totals. BAP assumes the increase for years 2002-2005 is the approximate average of the change for 2000 and 2001. BAP staff estimates taxable sales for FY2004 to be $6,104,000,000 and taxable sales for FY 2005 to be $6,257,000,000.

BAP states, as was the case with similar proposals from last year, there is no information available that addresses what percent of these expenditures would qualify for the exemption or how effective this program would be in so far as motivating the public to shop for clothing during the tax "holiday".

BAP has estimated the level of Missouri consumer spending on "Stationary/School" supplies for FY04 at $182,000,000 and for FY05 at $186,000,000. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri's share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 2000 and 2001.

Also, BAP has estimated the level of Missouri consumer spending on "Computer, software, et al" supplies for FY04 at $638 million and for FY05 at $654 million. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri's share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 2000 and 2001.

BAP defers to the Department of Revenue for the revenue estimate on the gambling winnings.

BAP assumes this substitute combines several tax law changes from other bills.

1. 21.810 - Establishes Joint Committee on Tax Policy – No impact.

ASSUMPTION (continued)

2. 34.040 - Tax clearances for vendors selling to the state – Defer to OA Purchasing and DOR.

3. 71.620 - Exempts investment funds service corporations from various taxes – No information available for this provision.

4. 92.250 - Provision dealing with apportionment of non-resident earnings and net profits tax in Kansas City and St. Joseph – No information available for this provision.

5. 143.121 - Provision affecting carry forward and carry backward of net operating losses for income tax – Defer to DOR.

6. 143.124 - Railroad Retirement Double Dip - $2 million in GR savings.

7. 143.181 - Tax on non-resident gaming winnings – defer to Gaming Commission.

8. 143.225 & 144.081 - Electronic payment of withholding tax and sales taxes that are due quarter monthly – Defer to DOR.

9. 488.5028 - Includes court costs over $25 as amounts that can be offset against a tax refund owed to a taxpayer – No information available for this provision.

10. 144.025 - Mandates that an article used for a trade in for sales tax credit must have had sales tax paid on it – defer to DOR

11. 144.025 - Grain and livestock may be traded in on a motor vehicle – unknown. Defer to DOR and Missouri Department of Agriculture.

12. 144.049 - A three-day sales tax holiday with sales at the Missouri State Fair exempt for the holiday – B&P offers same information as previous versions of this bill. This version extends the holiday to cover "computer software" with a value of $200 or less. Information previously supplied on spending on "computers" includes spending on "computer peripherals" and "software".

13. 313.826 - Withholding tax of 4% must be collected on winnings on gambling boats of $1200 or more – defer to the Gaming Commission.

14. 338.515-338.550 - Pharmacy Provider Tax – defer to DSS.

ASSUMPTION (continued)

15. 143.782 - Court costs may be used as debt offsets – No information available for this provision.

16. Section 1 - Tax clearances for state employees, elected officials, and members of the General Assembly and Judiciary would be given 45 days as opposed to 30 days to settle any unpaid tax liability. – defer to DOR

17. Section 2 - Tax clearances for issuance or renewal of professional licenses – defer to DOR.

Officials of the **Department of Revenue (DOR)** state this legislation:

Establishes Section 21.810 a permanent joint committee of the general assembly to be known as the Joint Committee on Tax Policy.

IMPACT: This legislation as written would require some changes within the Department of Revenue regarding tax policies and reviews by the Joint Committee on Tax Policy; however not enough to warrant administrative costs.

Changes Section 34.040 by adding a new paragraph 6 that indicates that no state agency that contracts for goods or services can establish a contract with anyone that is not current with Chapter 144.

IMPACT: DOR has provided, for several years, lists to COA for noncompliant vendors – this should be no additional impact on DOR if the vendors in question are registered and provided to DOR by COA for verification.

Changes Section 71.620 that pertains to the taxing powers relative to cities and counties.

IMPACT: None

Changes Section 92.250 that pertains to the earnings tax imposed in Kansas City and St. Joseph.

IMPACT: None

Changes Section 143.121 to correct gender and to add language in (d) regarding any net operating loss taken against Federal income taxes but disallowed against Missouri income tax since July 1, 2002 can be carried forward and taken against any loss on the Missouri income tax

ASSUMPTION (continued)

return for a period of not more than 20 years from the year of the initial loss.

IMPACT: This allows corporations to carry forward any disallowed NOL for up to 20 years. Legislation also allows farmers to take all of their net operating loss carry backs on their Missouri return even if it is carried back to years 5, 4 and 3. Taxation currently disallows NOL carry backs to year 5, 4, and 3. This will need to be changed in DOR's processing. Taxation will have to modify the tax forms and do minor changes to the COINS system.

REVISION – PERSONAL TAX - Personal Tax will need 1 Tax Processing Tech for every 30,000 returns claiming the NOL – which carries forward over 20 years.

Changes Section 143.124 by adding a new paragraph 10 dealing with pensions, annuity and retirement allowance.

IMPACT: Personal Tax assumes that this eliminates double dip of railroad retirement for all but 100% disabled. The IRS publication's definition is substantially the same as our PTC one so the disabled boxes on the form already should suffice. This will require an additional piece of verification for them to submit but Personal Tax does not anticipate that this will be enough to add FTE impact. Legislation needs to have an effective date for this new paragraph (i.e., "for all taxable years beginning on or after January 1, 2004").

Changes Section 143.181 by adding wording indicating that winnings from wagers placed in lottery conducted by the state lottery commission or winnings from any other wager placed in this state for any wagering transaction, gaming activity or gambling activity in this state shall be included in the calculation of a nonresident source income.

IMPACT: No additional impact is expected however, this would make nonresidents taxable if they buy a ticket in Missouri or come into Missouri to gamble.

Changes Section 143.225 by adding a new paragraph 9 that allows the DOR to prescribe the EFT for quarter monthly withholding payments.

IMPACT: No additional impact on Taxation.

Changes Section 143.782 by adding a definition of "court " and renumbered the balance of paragraphs for debt offset. Legislation also indicates court costs as defined in Section 488.010.

ASSUMPTION (continued)

IMPACT: Changes the statute to allow for the debt offset. Programming will be required to the MINITS and COINS system and are reflected in the Section 488 impact.

Changes Section 144.025 dealing with sales tax on trade in motor vehicle, trailer, boat, or outboard motor. Also stipulates that the article that is being traded in for credit or part payment, the person trading in the article must be the owner or holder of a properly assigned certificate of ownership. Adds a new paragraph 5 that indicates that any purchaser of a motor vehicle or trailer used for agricultural use by the purchaser shall be allowed to use as an allowance to offset the sales and use tax liability any grain or livestock produced or raised by the purchaser.

IMPACT: DOR would require verification from the purchaser on the proof that sales was originally paid on the article being traded.

Adds Section144.049 that establishes a sales tax holiday for clothing, school supplies (computer software in 03 included in school supplies), and personal computers. The MITS system will need to be modified to track the new item (similar to food tax). Many voucher filers will now have to file a long form, therefore, the number of long forms received by DOR will increase. The processing area will need additional FTE to handle the increase in the number of long sales tax forms received.

IMPACT: This legislation establishes a sales tax holiday for clothing, school supplies and person computers.

The MITS system will need to be modified to track the new item (similar to food tax). Many voucher filers will now have to file a long form, therefore, the number of long forms received by DOR will increase. The processing area will need additional TPT I for every additional 34,000 errors generated, one Clerk II in pre-edit for every 184,000 returns impacted, and one Data Entry Operator I for every 170,000 returns impacted.

Business Tax will also need to send notification letters and a long sales tax form to approximately 100,000 sales tax accounts in August. It is estimated the postage cost to notify the businesses will be approximately $37,000.

The MITS system will need to be modified to recognize the new item tax. The figures reported on the new item tax will need to be calculated and broken down into tax types in order to reimburse the lost revenue to the political subdivisions. The changes to MITS will require modifications to several tables and distribution programs as well as the registration

ASSUMPTION (continued)

subsystem. The above modification will require 2,768 hours of programming at a total cost of $92,340.

Changes Section 144.081 to add a new paragraph 9 that indicates that DOR can prescribe the use of an EFT system for payment of quarter monthly sales and use tax remittances.

IMPACT: No additional impact on Taxation.

Adds Section 313.826 that excursion gambling boats licensed by the commission shall tax any winnings over $1200 for income tax purposes.

IMPACT: Requires gambling boats to withhold – Business tax will have to register these boats separately on the withholding system. No impact.

Changes Section 338.515 the effective dates from 2002 to 2003.

IMPACT: None – Deals with Social Services.

Changes Section 338.520 deals with Social Services and that they can adjust the tax rate quarterly on a prospective bases.

IMPACT: None – Deals with Social Services.

Changes Section 338.550 by deleting the entire current language and replacing it with language that indicates that the pharmacy tax will expire in 90 days after any one or more of the following conditions are met – 1) aggregate dispensing fee paid to pharmacists per prescription is less than the FY 2003 reimbursement amount; 2) the formula used to calculate the reimbursement for products dispensed by pharmacies is changed resulting in lower reimbursement in the aggregate than FY 2003; or 3) July 1, 2005. Extends the expiration of the statute to June 30, 2005.

IMPACT: None – Deals with Social Services.

Adds Section 488.5028 that deals with debt offset of delinquencies over $25 to the office of state courts administrator and that court administrator will seek a setoff of an income tax refund. Court Administrator will work with DOR by providing the necessary information to identify the debtor. Court Administrator will notify the debtor when a refund is offset.

ASSUMPTION (continued)

IMPACT: MINITS programming will be needed to allow the electronic match of the tapes from the State Courts Administrator with the mainframe system. It is estimated that 346 hours of programming will be needed at $11,542.

Adds Section 1 – indicates that all persons employed full time, part time or on a temporary or contracted basis by the executive, legislative, or judicial branch of this state or each division of each branch of state government shall file and pay all state tax returns to continue employment. Each chief administrative officer or designee shall at least 1 time each year check the status of employees within their division. Each year the chief administrative office for each division of the general assembly and the judicial branch shall provide DOR with the name and social security number of every elected or appointed member to determine that all income tax returns are filed. If taxes are owed or have not been filed, the taxpayer shall be notified and will have forty-five days to satisfy the liability or provide a copy of a payment plan that has been approved by DOR.

IMPACT: This would require that the state agency provide a list electronically of employee name and social security number for verification. DOR assumes this will be done electronically and that it will be merged into current processing that check DOR employees for filing of income taxes.

Adds Section 2 – indicates that professional registration have verification from DOR that all state income tax returns are filed and paid.

IMPACT: This would require that the state agency (Professional Registration) provide a list electronically of all social security numbers for verification one time a year.

Deletes Section 338.501, 338.525, 338.545.

DOR did not provide any revenue impact for this substitute. However in response to similar legislation, DOR assumed the following:

DOR states that Section 143.181 (Gambling Winnings) - Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source. According to the gaming commission, there is $110 million of nonresident casino winnings paid out in Missouri. Therefore, with a 6% tax rate, the increase in revenues totals $6.6 million. DOR also assumes an UNKNOWN increase in revenues from nonresident lottery winnings.

ASSUMPTION (continued)

Section 143.124.10: In a previous fiscal note filed in March 2000 (SB 992, LR 4415-01), Oversight estimated the revenue impact at $1.6 million. Therefore, DOR assumes the revenue impact somewhere between $1.6 to $2 million. This legislation will require verification that the taxpayer is 100% disabled.

Section 1 (Tax Clearances) - DOR anticipates an UNKNOWN increase in revenues.

Section 2 (Tax Clearances) – Michigan, who issues 700,000 professional licenses, began requiring compliance with professional licenses and reportedly brought in $20 million. DOR assumes that because Missouri issues half of the licenses Michigan does (approximately 350,000), then Missouri would generate approximately half of the revenue ($10 million).

Oversight assumes the revenue impact of $10 million would occur only for FY04 and a lower unknown amount of revenue would be generated thereafter.

Section 143.225.9: If mandated electronic withholding tax quarter-monthly payments were implemented, the Cashiering Section estimates payments would be deposited into the bank two days sooner. The state would earn an additional $1,011,478 in interest annually based on the following assumptions:

Withholding Quarter-Monthly:

Annual # W/H qtr-monthly due dates	48
# days processing	x 3
Total Days	144
FY02 W/H qtr-monthly collections	$2,326,721,487
Deposit days	/ 144
Ave. daily bank deposit	$ 16,157,788
Annual rate of return	x 3.13% (ave. FY02)
# days faster deposit	x 2
Additional Interest Earned Annually	$ 1,011,478

Oversight assumes the annual rate of return should be reduced to 2.28%, based on the average daily earnings rate (as of April 15, 2003) provided by the Office of the State Treasurer. Therefore, **Oversight** assumes the additional interest earned annually would be $736,795.

ASSUMPTION (continued)

Oversight assumes the revenue impact of electronic withholding tax quarter-monthly payments for FY04 would be reduced to $613,996 since only ten months would be available for the additional interest earnings to allow time for DOR to notify employers.

Section 144.081.9 (Electronic Payments - Sales Tax) - If mandated electronic quarter-monthly sales tax payments were implemented, the Cashiering Section estimates payments would be deposited into the bank two days sooner. The state would earn an additional $332,925 in interest annually based on the following assumptions: (Personal service cost savings would be minimal.)

Sales Quarter-Monthly:

Annual # QMATS due dates	48
# days processing	x 3
Total Days	144
FY02 QMATS collections	$765,834,318
Deposit days	/ 144
Ave. daily bank deposit	$ 5,318,294
Annual rate of return	x 3.13% (ave. FY02)
# days faster deposit	x 2
Additional Interest Earned Annually	$ 332,925

Oversight assumes the annual rate of return should be reduced to 2.28%, based on the average daily earnings rate (as of April 15, 2003) provided by the Office of the State Treasurer. Therefore, **Oversight** assumes the additional interest earned annually would be $242,514.

Oversight assumes the revenue impact of electronic sales tax quarter-monthly payments for FY04 would be reduced to $202,095 since only ten months would be available for the additional interest earnings to allow time for DOR to notify businesses.

Oversight has, for fiscal note purposes only, changed the starting salaries for the Tax Processing Tech I, Clerk II and Data Entry Operator I to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, **Oversight** has reduced the amount requested for postage to reflect the bulk mailing rate.

ASSUMPTION (continued)

Oversight assumes the mailing costs would be incurred in July before the August sales tax holiday. In addition, **Oversight** has included the programming costs and FTE requested for the sales tax holiday since it is assumed DOR will be required to track the sales tax revenue lost.

Oversight, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by BAP and the actual impact similar legislation had on other states. The revenue estimate was based on 3/365 of the fiscal year taxable sales, resulting in a loss of $2 million in state funds due to the sales tax holiday for FY04, and $2.5 million in FY05. No adjustment was made for the $100 cap, $50 cap and $2,000 cap. **Also, no adjustment was made for any incentive effect this portion of the proposal might have on spending habits. The actual loss to state funds from this sales tax holiday could be significantly higher than estimated. Oversight** assumes the Department of Revenue will enforce the provisions of the bill through post-audit in the field. If compliance is not monitored, the revenue impact could increase.

For a similar prior proposal, **Oversight** contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such "holidays" in 1997, 1998 and 1999. **Oversight** assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, *the Official Statistics*, Statistical Abstract of the United States: 2000 to determine what Missouri's taxable sales in a similar period might be. The comparison reveals that by using the Office of Administration, Budget and Planning's estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. **Oversight** assumes that the same impact will occur whether the exemption applied to clothing or shoes under $500 as it would for clothing under $100. **Oversight** also assumes that the results could be applied over a three day exemption as it would for a nine day exemption, as it would for a thirty-one day exemption.

Officials from the **Missouri Lottery Commission (LOT)** assumed in a response to similar proposed legislation, that the LOT did not have a fiscal impact from the legislation. The LOT currently withholds Missouri state taxes from winnings over $599 from out-of-state residents.

ASSUMPTION (continued)

Officials of the **Missouri Gaming Commission (GAM)** assume this legislation would not fiscally impact their agency. However, GAM states that $110 million is won by nonresidents each year according to the Federal Form W-2G. This form is required for all winnings over $1,200. GAM does not anticipate any growth in the winnings.

Currently, GAM withholds from the winnings of Missouri residents both federal and state income tax, and only federal income tax from nonresidents.

Officials from the **Attorney General's Office (AGO)** assume this bill would prohibit the Office of Administration from entering into contracts with businesses that do not collect taxes pursuant to ch. 144. AGO assumes COA and DOR would adjust contracts and monitor compliance appropriately, but that the proposal would result in additional litigation from those seeking to do business with the state. The proposal also effectively requires agencies to terminate employees for non-payment of taxes. AGO assumes this would result in additional employment litigation. The proposal also prohibits the professional boards from issuing or renewing licenses to individuals with unpaid taxes. Again, AGO assumes this would result in additional licensing litigation. Finally, various provisions of the bill could result in additional collection litigation on behalf of DOR. Based on the assumption that the vast majority of contractors, state employees and licensees pay their taxes, AGO assumes costs could be absorbed with existing resources; but because a significant increase in activity in any of these areas would require additional staffing, the cost of this proposal is UNKNOWN (potentially in excess of $100,000).

Office of the State Courts Administrator (CTS) officials state, as it relates to the judiciary, the proposed legislation would provide for income tax refund setoff where there are unpaid court costs, fines or fees. CTS is to administer and set guidelines for the program. CTS estimates that there is about $23.4 million in unpaid costs, fees and fines at the present time. CTS has no way, however, of estimating how much of this could be collected through refund setoffs.

Since interest earned on the funds realized is to be used to offset administrative costs, CTS assumes there would be no cost to General Revenue.

Officials of the **Department of Economic Development (DED)** assume this bill addresses some sales and use tax provisions which would have no impact on DED other than DED would have to ensure that vendors used for purchasing of goods or services had paid all tax due to the state. DED assumes that DOR or COA would provide information to ensure that vendors were or were not in compliance. The bill also creates a sales tax holiday and addresses prescription drugs. In

ASSUMPTION (continued)

addition it deals with checking once per year to see if state employees have paid applicable individual income tax. Again, DED assumes that DOR will check a list of employees to see if they are in compliance. The proposal requires DOR to insure that professional licensees, regulated by DED, have paid taxes before licenses could be renewed. DED would have to rely on DOR to work out issues identified in the annual check on employees.

Since most checking on businesses and individuals would have to be done by other state entities, DED assumes no impact. If this interpretation is incorrect, DED may need to request FTE and/or expenses at a later date.

DED assumes this bill will have no impact on the department. This could change depending on how much Professional Registration has to do to coordinate licensee checks with DOR. Costs for computer programing and labor intensive work could add cost to the bill if DOR is unable to do a computer/automated match of licensees taxes and accomplish it in a timely manner.

Officials from the **City of Kansas City (CKC)** state that passage of this legislation would have a severely negative fiscal impact on their city. The estimated loss of occupational license tax revenue would be $1 million annually.

CKC assumes the profits tax portion of the bill would result in virtual elimination of the profits portion of the city's earnings and profits tax in an estimated amount of $26.2 million. The investment fund service corporation loss is estimated to be $3.5 to $4 million of this amount.

Officials from the **Department of Social Services (DOS)** assume Section 338.500 makes minor changes to the administration of the pharmacy tax administered by DOS as well as extends the pharmacy tax through July 1, 2005. The legislation also states that the pharmacy tax will expire in 90 days if the aggregate dispensing fee or the formula used to calculate the reimbursement is lower than the fiscal year 2003 reimbursement. The FY04 budget (Governor Recommendations) contains two items that will reduce the reimbursement (AWP-14% and Co-payments) to pharmacies.

DOS estimates retail pharmacy sales for FY04 at $3.22 billion. This is based on the data obtained during the first year of operation of the pharmacy tax and inflated by 3%. For the purposes of this fiscal note, DOS assumed an average tax rate of 1.71%, which would yield revenue of $55,056,000. $23,401,002 will be used to continue the program management initiatives. The net gain in terms of GR to the State is $31,654,998 ($55,056,000 - $23,401,002). The net gain of $31,654,998 allows DMS to draw federal funds of $50,267,874 for a total of

ASSUMPTION (continued)

$81,922,872.

DOS assumes that the average tax rate could approach 1.8%, which would yield revenue of $57,960,000, but DOS has elected to project revenue of $55,056,000 to be fiscally conservative.

The maintenance and additional requirements of this program will require one additional FTE.

DOS estimates that $100,000 (E) will be needed for a vendor system support. The funds are requested so that DOS can maximize the pharmacy tax revenue and to perform the quarterly revisions, which should also increase pharmacy tax revenue.

For the purpose of this fiscal note, DOS assumes the pharmacy tax would be in effect in FY04, FY 05, and ¼ of FY06. As stated, the language states the pharmacy tax will expire 90 days after any change in dispensing fee or ingredient reimbursement, or July 1, 2005. DOS assumes the intent was for the pharmacy tax to sunset on July 1, 2005, but in the current form, DOS assumes that the pharmacy tax would expire 90 days after July 1, 2005. If it was assumed that pharmacy tax would sunset 90 days after any change in dispensing fee or ingredient reimbursement and that occurred on July 1, 2003, the pharmacy tax would expire on September 30, 2003 and only ¼ would be realized in FY04 and no revenue for FY05 and FY06.

Oversight assumes this legislation allows a taxpayer to carry forward certain net operating losses disallowed in last year's Senate Bill 1248. Since no costs or revenues were included in SB 1248 for reducing the limits on a NOL, **Oversight** assumes this proposal would create an unknown loss of revenue that could exceed $100,000 in any year.

This legislation will increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2004	FY 2005	FY 2006
GENERAL REVENUE FUND			
Income - General Revenue			
Reduction in pension exemptions	$2,000,000	$2,000,000	$2,000,000
Electronic sales/use tax payments	$202,095	$242,514	$242,514
Electronic withholding payments	$613,996	$736,795	$736,795

FISCAL IMPACT - State Government	FY 2004	FY 2005	FY 2006
Fines and costs on criminal cases offset	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances to vendors (34.040)	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances on employees (Sec. 1)	Unknown	Unknown	Unknown
Increase in tax compliance from tax clearances to issue/renew prof licenses	$10,000,000	Unknown	Unknown
Decrease in allowable sales tax trade-in credit (144.025)	Unknown	Unknown	Unknown
Nonresident casino winnings	$6,600,000	$6,600,000	$6,600,000
Nonresident lottery winnings	Unknown	Unknown	Unknown
Total Income - GR	$19,416,091 to Unknown	$9,579,309 to Unknown	$9,579,309 to Unknown
Cost - Dept. of Revenue (DOR)			
Personnel (3 FTE)	($46,033)	($56,620)	$0
Fringe Benefits	($18,630)	($22,914)	$0
Expense and Equipment	($20,608)	($1,137)	$0
Programming (sales tax holiday)	($110,353)	$0	$0
Programming (debt offset)	($11,542)	$0	$0
Postage	($26,800)	($26,800)	$0
Total costs - DOR	($233,966)	($107,471)	$0
Cost - Office of Administration			
Personal Service (1 FTE)	($37,488)	($38,425)	($40,370)
Fringe Benefits	($15,551)	($15,940)	($16,338)
Expense and Equipment	($4,205)	($309)	($318)
Total Cost - COA	($57,244)	($54,674)	($57,026)
Cost - Attorney General			
Litigation expense* (tax clearances)	(Unknown)	(Unknown)	(Unknown)
Loss to General Revenue Fund			
Sales tax holiday	($1,422,740)	($1,749,945)	$0
Carryforward of NOL*	(Unknown)	(Unknown)	(Unknown)
Total Loss - GR	($1,422,740 to Unknown)	($1,749,945 to Unknown)	(Unknown)

FISCAL IMPACT - State Government	FY 2004	FY 2005	FY 2006
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$17,702,141 to Unknown**	**$7,667,219 to Unknown**	**$9,522,283 to Unknown**
*Loss could exceed $100,000 in any year.			
PHARMACY TAX			
Savings - Department of Social Services - Division of Medical Services			
Program savings - pharmacy program	$31,574,534	$31,572,666	$31,572,666
Costs - Department of Social Services - Division of Medical Services			
Personal Services (1 FTE)	($18,489)	($22,750)	($22,750)
Fringe Benefits	($7,482)	($9,207)	($9,207)
Expense and Equipment	($54,493)	($50,375)	($50,375)
Total Costs - DOS	($80,464)	($82,332)	($82,332)
ESTIMATED NET EFFECT ON PHARMACY TAX FUND	**$31,494,070**	**$31,490,334**	**$31,490,334**
OTHER STATE FUNDS			
Income - Various State Funds			
Increase in tax compliance	Unknown	Unknown	Unknown
Fines and costs on criminal cases offset	Unknown	Unknown	Unknown
Total Income - Various State Funds	Unknown	Unknown	Unknown
Loss to School District Trust Fund			
Sales tax holiday	($474,247)	($583,315)	$0
Loss to Conservation Fund			
Sales tax holiday	($59,281)	($72,914)	$0
Loss to Parks and Soil Funds			
Sales tax holiday	($47,425)	($58,332)	$0

FISCAL IMPACT - State Government	FY 2004	FY 2005	FY 2006
ESTIMATED NET EFFECT TO ALL OTHER STATE FUNDS	**($580,953) to Unknown**	**($714,561) to Unknown**	**Unknown**
FEDERAL FUNDS			
Income - Department of Social Services - Division of Medical Services			
Federal Assistance	$80,464	$82,332	$82,332
Costs - Department of Social Services - Division of Medical Services			
Personal Services (1 FTE)	($18,489)	($22,750)	($22,750)
Fringe Benefits	($7,482)	($9,207)	($9,207)
Expense and Equipment	($54,493)	($50,375)	($50,375)
Total Costs - DOS	($80,464)	($82,332)	($82,332)
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004	FY 2005	FY 2006
LOCAL GOVERNMENT			
Income - Cities/Counties			
Increase in tax compliance	Unknown	Unknown	Unknown
Fines and costs on criminal cases offset	Unknown	Unknown	Unknown
Total Income - Cites/Counties	Unknown	Unknown	Unknown
Loss - Cities/Counties			
Investment funds service corp license fees	(Unknown)	(Unknown)	(Unknown)
Decrease in taxes from corporate apportionment method	(Unknown)	(Unknown)	(Unknown)
Total Loss - Cites/Counties	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT - Local Government	FY 2004	FY 2005	FY 2006
Loss to Cities			
Sales tax holiday	$0 to ($426,822)	$0 to ($524,984)	$0
Loss to Counties			
Sales tax holiday	$0 to ($284,548)	$0 to ($349,989)	$0
ESTIMATED NET EFFECT TO LOCAL GOVERNMENT	**(Unknown) to Unknown**	**(Unknown) to Unknown**	**(Unknown) to Unknown**

FISCAL IMPACT - Small Business

This legislation could affect small businesses that collect sales tax on clothing. Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt. Also, Small businesses with net operating losses could be impacted as a result of this proposal.

DESCRIPTION

This substitute creates a state sales and use tax holiday for certain clothing, personal computers, and school supplies purchased during a three-day period each August. Any political subdivision may opt in to the holiday by adoption of a local ordinance if submitted to the Department of Revenue by July 1each year. The tax holiday will expire July 1, 2005.

The substitute also creates the Joint Legislative Committee on Tax Policy consisting of five members from both the House of Representatives and the Senate. The committee will be responsible for continuous study and review of state tax policy and to issue reports on its findings and recommendations to the General Assembly as deemed necessary.

The substitute also makes various changes to the collection of various taxes by the Department of Revenue. The substitute:

(1) Requires every vendor or affiliate of a vendor seeking to provide goods and services to the State of Missouri by contract to collect and properly pay all sales and use taxes;

DESCRIPTION (continued)

(2) Requires any amount of pension, annuity, or retirement allowance deducted for state individual income tax purposes to be included in the taxpayer's federal adjusted gross income and not otherwise deducted in the calculation of Missouri taxable income. Persons who are 100% disabled, as defined by federal law, are exempted from this provision;

(3) Requires all lottery and other gaming winnings to be included in Missouri nonresident adjusted gross income when the winnings are from a Missouri source;

(4) Allows the Director of the Department of Revenue to require the remittance of sales and use taxes and withholding taxes through an electronic funds payment system for employers and sellers who are required to file and pay on a quarter-monthly frequency;

(5) Includes court costs in excess of $25 related to the State Supreme Court, Court of Appeals, or any circuit court of Missouri as amounts that can be offset against a refund of taxes owed to a taxpayer;

(6) Adds additional requirements on any article being traded in for the purpose of receiving a sales or use tax credit against a new article being purchased. The article being traded in must have originally had sales or use tax paid on it or have been specifically exempted from sales and use taxes by law. Grain and livestock raised or produced by a purchaser may be traded in on a motor vehicle or trailer used for agricultural use by the purchaser;

(7) Requires as a condition of employment with the state government that all state income taxes due be filed and paid by the employee;

(8) Requires all state income taxes due to be paid by members of the General Assembly, statewide elected officials, and members of the judiciary; and

(9) Requires a tax clearance from the department prior to the issuance or renewal of any professional license granted by the state.

The substitute exempts certain investment funds service corporations from the local license fees and local businesses taxes and allows the apportionment of income in determination of the Kansas City earnings tax.

The substitute changes provisions related to the carry-forward and carry-back provisions of net operating losses for income tax purposes. Any amount of net operating losses taken against

DESCRIPTION (continued)

federal taxes but disallowed against Missouri taxes since July 1, 2002, may be carried forward and used up to 20 years in the future. In addition, certain net operating losses relating to farming may be carried back and forward in the same manner as allowed by federal law.

The substitute changes the effective date of the pharmacy tax from July 1, 2002, to July 1, 2003, and allows the Department of Social Services to adjust the pharmacy tax rate quarterly, on a prospective basis. The tax will expire 90 days after stated conditions are met. The director of the department is required to notify the Revisor of Statutes of the expiration date if the conditions are met. If the conditions are not met, the tax will expire on June 30, 2005.

The substitute contains an emergency clause.

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
  Division of Budget and Planning
  Division of Purchasing
  Division of Accounting
Missouri Lottery Commission
Missouri Gaming Commission
State Courts Administrator
Attorney General's Office
State Treasurer
Department of Economic Development
  Division of Professional Registration
Department of Social Services
Missouri House of Representatives
Missouri Senate
City of Kansas City

SOURCES OF INFORMATION (continued)

Missouri Senate Appropriations Committee
Annual Fiscal Report: Fiscal Year 2002
States of Texas, Florida and New York

Mickey Wilson

Mickey Wilson, CPA
Director
May 6, 2003