

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5094-05
Bill No.: SCS for SB 794
Subject: Health Care; Taxation and Revenue - Sales and Use
Type: Original
Date: January 29, 2016

Bill Summary: This proposal creates a sales tax exemption for parts of certain types of medical equipment.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Total Estimated Net Effect on General Revenue	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
School District Trust	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Conservation Commission	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Parks, Soil & Water	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$300,000)	(Could exceed \$300,000)	(Could exceed \$300,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	(Could exceed \$100,000)	(Could exceed \$100,000)	(Could exceed \$100,000)

FISCAL ANALYSIS

ASSUMPTION

Oversight notes that under current law, the initial purchase of qualified medical equipment is exempt from state and local sales tax. Replacement parts under current law are taxable. Oversight notes this proposal would make replacement parts tax exempt.

Office of Administration-Division of Budget and Planning (B&P) did not respond to our current fiscal impact request. In response to the previous version, B&P assumed the proposal could reduce Total State Revenues (TSR) by less than \$46.9 million and General Revenue by less than \$33.3 million in FY 2018 and thereafter. In FY 2017, TSR will be reduced by less than \$39.2 million and General Revenue by less than \$27.8 million. This proposal will impact the calculation under Article X, Section 18(c).

B&P noted this proposal would exempt all sales, rentals accessories, repairs and parts of durable medical equipment. This proposed exemption would be in addition to other durable medical equipment that is currently exempt from sales tax.

Based on data from the U.S. Bureau of Economic Analysis, in 2014 there were \$64.6 billion in durable therapeutic devices and equipment sold in the U.S. B&P estimates that Missouri's share of this market was \$1.1 billion. However, B&P was not able to determine the amount of the Missouri market that is currently already exempt from sales tax. Therefore, B&P estimates that this proposal will decrease Total State Revenues by less than \$46.9 million (\$1.1 billion x 4.225%) and General Revenue by less than \$33.3 million in FY18 and thereafter. If additional data becomes available, B&P will update this estimate.

Oversight notes that upon additional research, approximately 14% of the Missouri's population is covered by Medicaid, and nationally, approximately 22% of healthcare spending is covered by Medicare. Oversight notes that Medicaid and Medicare are exempt from state and local sales tax. Oversight has adjusted the \$1.1 billion base by 36% to remove the Medicaid and Medicare portion. Oversight notes this new taxable base number of \$704 million does not take into consideration the amount of purchases covered by government employees covered by their employer. Oversight is unable to determine what portion of the \$704 million is for replacement parts. Oversight will show the impact as could exceed \$100,000.

Officials from the **Department of Revenue (DOR)** noted this proposal would not have a fiscal impact to DOR.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Conservation (MDC)** noted this proposal would have a negative fiscal impact of greater than \$100,000 on MDC. MDC assumed the DOR would be better able to estimate the anticipated fiscal impact.

Officials from the **Department of Natural Resources (DNR)** noted that DNR Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax. DNR assumes DOR and B&P will provide an account of the fiscal impact.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

In an earlier version of the proposal, officials from **Mississippi County**, the **Jackson County Election Board**, and the **St. Louis County Director of Elections** indicated they would not realize a fiscal impact if this proposal was enacted.

Officials from the **Platte County Board of Elections** indicated they would not realize a fiscal impact if this proposal was enacted.

Officials from the **City of Kansas City** indicated an unknown loss of revenue will be experienced if this proposal is enacted

ASSUMPTION (continued)

Officials from **St. Louis County** government indicated an unknown loss of revenue will be experienced if this proposal is enacted.

Officials at the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Christian, Clay, Cole, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jasper, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Maries, Marion, McDonald, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Pulaski, Scott, Shelby, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to **Oversight's** request for fiscal impact.

Officials at the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Des Peres, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Joseph, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
GENERAL REVENUE FUND			
<u>Revenue Reduction</u>	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
Sales tax exemption-parts of certain type of medical equipment			
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2017 (10 Mo.)	FY 2018	FY 2019
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SCHOOL DISTRICT TRUST FUND

Revenue Reduction

Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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**CONSERVATION COMMISSION
FUND**

Revenue Reduction

Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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**PARKS, AND SOIL AND WATER
FUND**

Revenue Reduction

Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
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<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
LOCAL GOVERNMENTS			
<u>Revenue Reduction</u>			
Sales tax exemption-parts of certain type of medical equipment	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)	(Could exceed <u>\$100,000</u>)

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses involved in sales of parts of certain types of medical equipment.

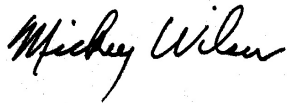
FISCAL DESCRIPTION

This act creates a sales tax exemption for all sales of parts of certain types of medical 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

Office of Administration - Budget and Planning
Department of Revenue
Department of Conservation
Joint Committee on Administrative Rules
Office of the Secretary of State
Mississippi County
Jackson County
St. Louis County
Kansas City



Mickey Wilson, CPA
Director
January 29, 2016

Ross Strobe
Assistant Director
January 29, 2016