

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1478-01
Bill No.: SJR 20
Subject: Constitutional Amendments; Taxation and Revenue - Income; Taxation and Revenue - Sales and Use
Type: Original
Date: March 4, 2019

Bill Summary: This proposal modifies several provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (\$7,800,000)	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0 or (\$7,800,000)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government*	\$0	\$0	\$0

* Transfers in and expenditures net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of the Secretary of State (SOS)** assume each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2019. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled statewide

ASSUMPTION (continued)

primary election is in August 2020 and the next scheduled general election is in November 2020 (FY 2021). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2021.

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal requires a voter approval; therefore, it will not impact Total State Revenue or the calculation under Article X, Section 18(e).

This proposal is subject to voter approval during the election in November 2020. B&P assumes that if voter approved, this proposal would not be enacted until January 1, 2021.

Article X, Section 4(d) would limit the top income tax rate to 5.9%. This section does not specifically state that the limit shall apply to individual or corporate income taxes. Therefore, B&P assumes that the 5.9% limit shall apply to both corporate and individual income taxes. B&P notes that currently the top individual income tax rate is 5.4% with further reductions scheduled to occur pending General Revenue growth requirements. B&P also notes that while the corporate tax rate is 6.25%, this rate is scheduled to decline to 4.0% beginning January 1, 2020. Therefore, by the time this proposal is enacted (if voter approved) both the individual and corporate tax rates would be below the 5.9% limit.

Article X, Section 27 would limit the combined rate of local sales taxes within a jurisdiction to 12.0%. Local sales taxes shall not include transient guest taxes or other taxes on lodging. B&P notes that currently the highest combined rate of local taxes is 7.454% within 26 taxing jurisdictions in St. Louis. The highest combined state and local tax rate is 11.679% also within the same 26 taxing jurisdictions in St. Louis.

Article X, Section 26 would repeal language limiting all future sales, use, or other transactional based tax levies to items and transactions that were taxable as of January 1, 2015.

Officials at the **Department of Revenue (DOR)** assume there is no fiscal impact from this proposal.

Officials at the **University of Missouri Economic & Policy Analysis Research Center (EPARC)** assume this constitutional amendment would cap the tax rate on income at 5.9%, restrict the combined rate of local taxes in any given taxing jurisdiction to 12%, and it would repeal the restriction on taxing services.

ASSUMPTION (continued)

Currently, the tax rate on income is 5.9% (2018) and will be lower in the future. No tax jurisdiction has a combined sales tax rate of 12% or higher. And repealing the restriction on taxing services does not actively tax services. Therefore, we do not foresee this amendment having an immediate impact on General Revenue.

Officials at **St. Louis County** assume there are no combination of local sales taxes currently exceeding 9.713% in St. Louis County, excluding CID and TDD taxes, so a 12% cap will have no effect.

Officials at the **City of Kansas City** assume the proposed cross jurisdiction sales tax cap poses a potential negative fiscal impact to Kansas City. The proposed ceiling could curtail the ability to impose local sales taxes even if approved by local voters. Additionally, the failure to articulate how the jurisdictions will handle competing ballot measures or establish a system of priority under the 12% cap will lead to increased costs. The fiscal damage that this bill could create is not currently quantifiable.

Officials at the **City of St. Louis** assume among other changes, this proposes a constitutional amendment that would place a cap on the total combined rate of sales taxes for any given taxing jurisdiction at 12%. In the City of St. Louis, the base sales tax rate (both local and state combined) totals 9.679%. This includes a rate of 0.666% for the St. Louis Public Schools which is a separate but overlapping taxing jurisdiction. Special community improvement and transportation taxing districts which can add up to two additional cents to this rate bring the total sales tax rate in certain areas of the City 11.679%. As this rate remains below the 12% cap as in the proposed resolution, the proposal would have no fiscal impact though could limit option for sales tax rate increases in the future.

The proposed repeal of Article X, Section 26 seeks to remove a constitutional limit on expanding what may be taxed under sales tax law. Whereas services and transactions not subject to sales taxes are currently protected from taxation under Article X, Section 26, the repeal of said section could provide the option for increasing the sales tax base in the future.

Officials at the **City of Springfield** assume a negative impact to the City. Elimination or exemption from state income tax and the sales tax base will affect the General fund and many important City programs. The impact is unknown but estimated to be \$1,000,000.

Officials at the **Monroe County Assessor's Office** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

Officials at the **St. Francois County** assume they cannot determine an impact.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

Oversight notes the current projected Individual Income Tax Rate is calculated with SB 509 (2014) and HB 2540 (2018) as follows:

TY 2018 it was 5.9% (.1% reduction from SB 509)

TY 2019 it is 5.4% (.1% reduction from SB 509 + .4% reduction from HB 2540)

TY 2020 will be 5.3% (.1% reduction from SB 509)

TY 2021 will be 5.2% (.1% reduction from SB 509)

TY 2022 will be 5.1% (last .1% reduction from SB 509)

Oversight notes that should this proposal be adopted by the people, the current individual and corporate tax rates would already be below the threshold established by the proposal. Therefore, this proposal has no fiscal impact.

Oversight notes that placing a 12% cap on the local sales tax will not have a fiscal impact as currently no taxing district has a sales tax rate higher than the 12%. Oversight also assumes transient guest taxes are not to be included in this calculation. This bill does not include the state rate when calculating the local rate at 12%. Should the state rate be included in the local rate then if a city exceeded the local 12% rate they would not be able to renew their tax in the future.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Transfer Out</u> - Local Election Authorities the cost of the special election if called for by the Governor	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - to Local Election Authorities the cost of a special election	\$0 or \$7,800,000	\$0	\$0
<u>Cost</u> - Local Election Authorities the cost of the special election if called for by the Governor	\$0 or <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL ELECTION AUTHORITIES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

The proposed constitutional amendment would prohibit the General Assembly from setting an income tax rate exceeding 5.9%, prohibit a combined local sales tax rate in excess of 12%, and repeal Article X, Section 26 relating to sales tax levies on transactions not taxed as of January 1, 2015.

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

City of Kansas City
City of Springfield
City of St. Louis
Department of Revenue
Monroe County Assessor
Office of Administration Division of Budget and Planning
Office of the Secretary of State
St. Francois County
St. Louis County



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March 4, 2019

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