

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0752S.13T
 Bill No.: Truly Agreed To and Finally Passed CCS for HCS for SS for SCS for SB Nos. 153 & 97
 Subject: Taxation and Revenue - Income; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Cities, Towns and Villages; Counties
 Type: Original
 Date: June 24, 2021

Bill Summary: This proposal would modify provisions relating to taxation.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|--|--|---|---|--|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| General Revenue Fund* | Could exceed (\$12,523,172) | Less than \$29,084,637 to \$50,020,558 | Less than \$34,000,251 to \$76,628,305 | Could exceed (\$260,778,481) to (\$212,078,237) |
| Total Estimated Net Effect on General Revenue | Could exceed (\$12,523,172) | Less than \$29,084,637 to \$50,020,558 | Less than \$34,000,251 to \$76,628,305 | Could exceed (\$260,778,481) to (\$212,078,237) |

*Oversight notes the fiscal impact of Section(s) 143.121 & 143.171 (approximately \$11.7 million in FY 2022) represents the state not collecting state income tax on the second and third round of federal economic stimulus refunds distributed in 2020 and 2021. This is not a loss of current funding or a new expense, but rather the non-collection (forgone income) of a potential two-year windfall of income taxes.

Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|----------------|---|---|---|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| Blind Pension Fund (0621) | \$0 | \$0 | (Unknown) | (Unknown) |
| School District Trust Fund (0688) | \$0 | Less than \$13,222,687 to \$20,201,327 | Less than \$26,922,981 to \$41,132,333 | Less than \$30,758,049 to \$46,991,464 |
| Conservation Commission Fund (0609) | \$0 | Less than \$1,652,836 to \$2,525,166 | Less than \$3,365,373 to \$5,141,542 | Less than \$3,844,757 to \$5,873,933 |
| Parks and Soils State Sales Tax Fund(s) (0613 & 0614) | \$0 | Less than \$1,322,269 to \$2,020,133 | Less than \$2,692,298 to \$4,113,233 | Less than \$3,075,805 to \$4,699,146 |
| Total Estimated Net Effect on <u>Other</u> State Funds | \$0 | Less than \$16,197,792 to \$24,746,626 | Less than \$32,980,652 to \$50,387,108 | Less than \$37,678,611 to \$57,564,543 |

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| | | | | |
| | | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | | |
|---|----------------|----------------|----------------|------------------------------------|
| FUND AFFECTED | FY 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| General Revenue – DOR | 8 FTE | 43 FTE | 43 FTE | 43 FTE |
| Total Estimated Net Effect on FTE | 8 FTE | 43 FTE | 43 FTE | 43 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 2022 | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
| Local Political Subdivisions | \$0 | Less than \$3,707,043 to \$14,541,627 | Less than \$5,424,610 to \$27,485,128 | Less than \$2,565,183 to \$27,768,131 |
| Local Government | \$0 | Less than \$3,707,043 to \$14,541,627 | Less than \$5,424,610 to \$27,485,128 | Less than \$2,565,183 to \$27,768,131 |

FISCAL ANALYSIS

ASSUMPTION

Total State Revenue (TSR):

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state:

Section(s) 32.310, 144.049, 144.054, 144.526, 144.637, 144.638, 144.710, 144.757, and 144.759 will not impact TSR.

B&P estimates Section 137.115 may reduce TSR by \$0 to \$500 annually, beginning in Fiscal Year 2022.

B&P estimates Section(s) 143.011 and 143.177 will reduce TSR by \$349,750,111 annually once fully implemented.

Section(s) 143.121 and 143.171 may reduce TSR by an amount that could exceed \$11,723,401 in Fiscal Year 2022. B&P notes this provision is not expected to impact TSR beyond Fiscal Year 2022.

Section 144.080 will have a cash flow and TSR impact in Fiscal Year 2022 and Fiscal Year 2023. This provision will not impact TSR beyond these two (2) fiscal years.

B&P estimates that Section(s) 144.605 and 144.752 will increase TSR by \$130 million to \$198.5 million annually once fully implemented. B&P notes, however, that the TSR impact from Section(s) 144.605 and 144.752 is only due to a clarification to base pursuant to the United States Supreme Court ruling in *Wayfair vs. South Dakota* (2018).

B&P estimates Section 620.2005 could reduce TSR by an unknown amount beginning in Fiscal Year 2022.

Therefore, B&P estimates that this proposed legislation may decrease TSR by \$151,211,178 to \$219,797,853 annually once fully implemented. B&P notes, however, that the TSR impact from

Section(s) 144.605 and 144.752 is only due to a clarification to the base pursuant to the United States Supreme Court ruling in *Wayfair vs. South Dakota* (2018).

Article X, Section 18(e):

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state:

Section(s) 32.310, 144.049, 144.054, 144.526, 144.637, 144.638, 144.710, 144.757, and 144.759 will not impact the calculation under Article X, Section 18(e).

Section 137.115 may reduce the calculation under Article X, Section 18(e) by \$0 to \$500 annually.

Section(s) 143.011 and 143.177 will reduce the calculation under Article X, Section 18(e) by \$349,750,111 annually once fully implemented.

Section(s) 143.121 and 143.171 may impact the calculation under Article X, Section 18(e).

Section 144.080 will not impact the calculation under Article X, Section 18(e).

Section(s) 144.605 and 144.752 will not impact the calculation under Article X, Section 18(e) as this would not technically be a new tax. Much of the revenue from online retail sales should already be due under the existing use tax law.

Section 620.2005 may impact the calculation under Article X, Section 18(e).

Therefore, this proposed legislation will reduce the calculation under Article X, Section 18(e) by \$349,750,111 to \$349,750,611 annually once fully implemented.

Section 32.310 – DOR Sales and Use Tax Map

Oversight notes this section requires that use tax information be added to the Missouri Department of Revenue's mapping system. Political subdivisions are required to provide their respective use tax information to the Missouri Department of Revenue by January 1, 2022. Should a political subdivision fail to provide their respective sales and/or use tax information to the Missouri Department of Revenue, the Missouri Department of Revenue shall use the last known sales or use tax rate for such political subdivisions.

Oversight notes the Missouri Department of Revenue must update their mapping system to include the use tax information by July 1, 2022.

Oversight notes, by July 1, 2022, the Missouri Department of Revenue must update their mapping system to include the total sales tax rate for combined rates of overlapping sales taxes levied and the total use tax rate for combined rates of overlapping use taxes levied.

Oversight notes, should the boundaries of a political subdivision required to submit data under this section be changed, the political subdivision must forward a copy of the ordinance adding or detaching territory from the political subdivision by registered or certified mail within ten (10) days of the adoption of such ordinance.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section adds use tax information to the Missouri Department of Revenue’s mapping system. In addition, the Missouri Department of Revenue must add the combined sales or use tax rate for jurisdictions with overlapping boundaries. This section further requires local jurisdictions to provide use tax information by January 1, 2022. In the event local jurisdictions do not supply sales or use tax data to the Missouri Department of Revenue, then the Missouri Department of Revenue will use the last known information. This section requires the Missouri Department of Revenue to implement the use tax map by July 1, 2022.

This section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this section adds “use tax” to DOR’s mapping feature which currently states the sales tax rate of a given political subdivision.

This section further requires all political subdivisions to submit their use tax information to DOR by January 1, 2022 and for DOR to have the updated website working by July 1, 2022. DOR assumes this will not have a fiscal impact as use tax is already included in the map where it has been provided by the political subdivision.

This section will require, by July 1, 2022, that the current sales tax map be updated to include the ability to see the total sales tax rate for combined rates in overlapping sales tax districts. These combined rates are to include sales and use tax.

DOR notes its existing sales tax map is not capable of being expanded at this time to meet these additional requirements without additional resources. When the previous map was designed, political subdivisions were required to submit their rates and boundaries but some refused, some did not have GIS capabilities to provide clear and concise boundaries, and some provided hand-drawn maps that were not always able to be uploaded to make clear and concise boundaries. The current map is just a list of what was provided, and there is no reconciliation of the boundary lines. In order to overlay all current sales and use tax districts it would require the creation of a composite of all tax boundaries. This can only be done by reconciling the thousands of gaps and slivers that occur when bringing together data from numerous sources. Creation of such a map can be done but DOR will required the following resources in order to accomplish it.

The current sales tax map is handled by the Office of Geospatial Information in OA/ITSD. OA/ITSD has the technical expertise and knowledge to create the needed interface for DOR.

However, to provide the expanded capabilities, OA/ITSD would require additional server hardware, cloud storage and software including additional GIS server infrastructure at a cost of \$195,000. Additionally, OA/ITSD will need one (1) FTE GIS Manager (\$75,000) and two (2) FTE GIS Specialists (\$55,405) at a cost of \$185,810 annually for salary and \$36,300 for GIS computer equipment (both hardware and software).

Additionally, DOR would handle the business aspects of this project, such as notification of the political subdivisions of the information needed, verifying that correct tax rates are provided and working to ensure that the boundaries of a taxing jurisdiction reconcile. During the collection of the data for the existing sales tax map it was found that only 75% of the counties have GIS capabilities while 25% do not. DOR will need to work with districts to determine jurisdictional boundaries in order to line up the boundaries.

DOR will also need two (2) FTE GIS Specialists (\$55,405) and one (1) FTE Associate Customer Service Representative (\$24,360) to handle the correspondence and initial collection of the information from the political subdivisions. Including salaries, equipment and GIS licensing, it is estimated to cost \$135,010 in the first year. It should be noted that the FTE would be ongoing expenses as districts are changing rates and boundaries all the time.

It is unclear when the fully functioning database would be able to go online. Hiring of staff and collecting and merging all the data will take time. While this project can be completed, DOR is unsure of its ability to accomplish in the timeframe required.

Due to the apparent complexity of reporting the tax rate(s) for overlapping jurisdictions, **Oversight** will include OA-ITSD's and the Missouri Department of Revenue's administrative costs for this section, as reported. Since this proposed legislation states the Missouri Department of Revenue must have the new mapping features online by July 1, 2022 (Fiscal Year 2023), Oversight will report the costs beginning in Fiscal Year 2022.

Section 67.1401 – Community Improvement District Act – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 67.1401 states a “Blighted Area” is “an area which: by reason of predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or menace to the public health, safety, morals, or welfare in its present condition and use, or has been declared blighted or found to be a blighted area pursuant to Missouri law

including, but not limited to, Chapter 353, Section(s) 99.800 to 99.865, or Section(s) 99.300 to 99.715”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law.

DOR notes that Community Improvement Districts may levy a property tax which is assessed and collected by the County Collector and not DOR. Additionally, a Community Improvement District may levy a sales and use tax, of which DOR collects the tax and keeps a 1% collection fee for reimbursement of expenses. DOR notes this provision would not impact existing Community Improvement Districts but could impact the number that qualify in the future.

Additionally this provision modifies the election language used for taking a Community Improvement District to the voters and requires any sales and use tax under this provision expire in 20 years. These changes would not fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.1421 – Community Improvement Districts – Petition

Oversight notes Section 67.1421 modifies the criteria required to be included in the five-year plan required to be attached to any petition putting forth a proposal to establish a Community Improvement District.

Currently, the five-year plan must state a description of the purposes of the proposed district, the services it will provide, the improvements it will make and an estimate of costs of these services and improvements to be incurred.

Section 67.1421 is modified so that the five-year plan must state a description of the purposes of the proposed district, the services it will provide, each improvement it will make from the list of allowable improvements under Section 67.1461, an estimate of the costs of these services and improvements to be incurred, the anticipated sources of funds to pay the costs, and the anticipated term of the sources of funds to pay for the costs.

Oversight notes Section 67.1421 also modifies the required proposed length of existence of a Community Improvement District required to be attached to any petition putting forth a proposal to establish a Community Improvement District.

Currently, attached to any petition putting forth a proposal to establish a Community Improvement District is the proposed length of existence of a Community Improvement District.

Section 67.1421 is modified so that the proposed length of time for the existence of the district, which in the case of districts established after August 28, 2021, shall not exceed twenty-seven (27) years from the adoption of the ordinance establishing the district unless the municipality extends the length of time under Section 67.1481.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.1451 – Community Improvement Districts – Board of Directors

Oversight notes Section 67.1451 sets out the qualifications for a district director if there are no registered voters in the district. This section is modified to state, in the case of districts established after August 28, 2021, if there are no registered voters in the district on the date the petition is filed, at least one director of the board governing the Community Improvement district shall, during his or her entire term, be a person who: 1) resides within the municipality that established the district, 2) is qualified and registered to vote under Chapter 115, according to the records of the election authority as of the thirtieth day prior to the date of the applicable election, 3) has no financial interest in any real property or business operating within the district, and 4) is not a relative within the second degree of consanguinity or affinity to an owner of real property or a business operating in the district.

In addition, Section 67.1451 states, in the case of districts established after August 28, 2021, if the board is to be elected, the petition shall require at least one member of the board be appointed by the governing body of the municipality in the same manner as provided in this section for board appointments. The appointed board member shall serve a four-year term.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.1461 – Community Improvement Districts – Powers of District

Oversight notes Section 67.1461 modifies the powers which a Community Improvement District has.

Currently, a Community Improvement District may, within its boundaries, provide assistance to or to construct, reconstruct, install, repair, or maintain and equip various public improvements, including any other useful, necessary, or desired improvement.

Section 67.1461 is modified to state that “any other useful, necessary, or desired improvement” must be specified in the petition or any amendment to such petition.

Oversight notes Section 67.1461 is also modified to require all construction contracts after August 28, 2021, in excess of five thousand dollars (\$5,000), between the district and any private person, firm, or corporation, to be competitively bid and awarded to the lowest and best bidder.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.1471 – Community Improvement Districts – Reporting

Oversight notes Section 67.1471 modifies the annual report required to be filed with the municipal clerk and the Missouri Department of Economic Development.

Currently, Community Improvement Districts are required, within 120 days after the end of the fiscal year, to submit a report to the municipal clerk and the Missouri Department of Economic Development stating the services it provided, revenues collected, and expenditures made by the Community Improvement District during the fiscal year.

Section 67.1471 modifies the annual report by requiring the report to include the dates the district adopted its annual budget, submitted its proposed annual budget to the municipality, and submitted its annual report to the municipal clerk.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.1481 – Community Improvement Districts - Termination of District

Oversight notes Section 67.1481 modifies the term of the existence of a Community Improvement District.

Currently, each ordinance establishing a Community Improvement District shall set forth the term for the existence of such Community Improvement District which term may be defined as a minimum, maximum, or definite number of years.

Section 67.1481 is modified so that each ordinance establishing a Community Improvement District shall set forth the term for the existence of such Community Improvement District which term may be defined as a minimum, maximum, or definite number of years, but in the case of a Community Improvement District established after August 28, 2021, the term shall not exceed twenty-seven years except as otherwise provided.

Currently, Section 67.1481 states, upon the expiration or termination of a district, the assets of such district shall be distributed in accordance with the plan for dissolution as approved by ordinance.

Oversight notes Section 67.1481 is further modified to state, upon the expiration or termination of a district, the assets of such district shall either be sold or transferred in accordance with the plan for dissolution as approved by the ordinance.

Oversight notes Section 67.1481 is further modified to state, prior to the expiration of the term of a Community Improvement District, a municipality may adopt an ordinance to extend the term of the existence of a district after holding a public hearing on the proposed extension. The extended term may be defined as a minimum, maximum, or definite number of years, but the extended term shall not exceed twenty-seven years.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.1545 – Community Improvement Districts – Sales and Use Tax

Oversight notes Section 67.1545 is modified to state, in each district in which a sales tax is imposed, every retailer shall prominently display the rate of the sales tax imposed or increased at the cash register area.

Oversight will not show a net fiscal impact as a result of the changes made to the Community Improvement District laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 67.2677 – Video Service Providers - Definitions

Oversight notes this section modifies the definition of “Gross Revenues” so that amounts received by video service providers from advertisers for: rental of set top boxes and other video service equipment, service charges, administrative charges, and a pro rata portion of all revenue derived for advertising are no longer included within a video service provider’s gross revenues.

Officials from the **Office of Administration – Budget & Planning Division** state this section changes the local franchise fees for cable operators, beginning January 1, 2023. This section may have an unknown negative impact on local revenues. This section will not impact Total State Revenue(s) or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this section changes how cable franchise fees are defined. DOR does not collect these fees, they are collected by political subdivisions. This provision will not have a fiscal impact on DOR. DOR defers to local political subdivisions to report the impact.

Officials from the **City of Kansas City** state this section narrows the definition of gross revenue to no longer include: rental set top boxes, modems or other equipment used to provide video services, service charges related to the provision of video services, administrative charges related to the provision of services, and a pro rate portion of all revenues derived from advertising. This would have a negative fiscal impact in an indeterminate amount.

Section 67.2680 – Satellite or Streaming Video Services

Oversight notes this section states the state, or any political subdivision, shall not impose any new tax, license, or fee in addition to any tax, license, or fee already authorized on or before August 28, 2021, upon the provision of satellite or streaming video services.

Oversight assumes, since this section states no “new” taxes, licenses, or fees shall be imposed on satellite or streaming video services, that this section will not result in a direct fiscal impact. However, provided the state and/or political subdivisions would have otherwise imposed new taxes, licenses, or fees upon satellite or streaming video services, such revenue would not be recognized as a result of this section.

Officials from the **Office of Administration - Budget & Planning Division** state this section prohibits the state or local jurisdictions from imposing any new tax, license, or fee on satellite or streaming video services after August 28, 2021.

Officials from the **Missouri Department of Revenue (DOR)** state this section changes how cable franchise fees are defined. DOR does not collect these fees, they are collected by political subdivisions. This provision will not have a fiscal impact on DOR. DOR defers to local political subdivisions to report the impact.

Officials from the **City of Kansas City** state this section prohibits imposition of any future tax on satellite or streaming video service. This would have a negative fiscal impact.

Section 67.2689 – Video Service Provider Fee

Oversight notes this section modifies the calculation of the video service provider fee.

Current law states a franchise entity, which is a political subdivision that was entitled to franchises and imposed fees on cable operators on the date before the effective date of Section(s) 67.2675 to 67.2714, may collect a video service provider fee equal to not more than five percent (5%) of the gross revenues from each video service provider that provides video service within the geographic area of such franchise entity.

This section modifies the fee to state that a franchise entity may collect a service provider fee equal to not more than five percent (5%) of the gross revenues charged to each customer of a video service provider that provides video service in a geographic area of such franchise entity.

This section further states that:

- Beginning August 28, 2023 (Fiscal Year 2024), franchise entities are prohibited from collecting a video service provider fee in excess of four and one-half percent (4.5%) of such gross revenues.
- Beginning August 28, 2024 (Fiscal Year 2025), franchise entities are prohibited from collecting a video service provider fee in excess of four percent (4%) of such gross revenues.
- Beginning August 28, 2025 (Fiscal Year 2026), franchise entities are prohibited from collecting a video service provider fee in excess of three and one-half percent (3.5%) of such gross revenues.
- Beginning August 28, 2026 (Fiscal Year 2027), franchise entities are prohibited from collecting a video service provider fee in excess of three percent (3%) of such gross revenues.
- Beginning August 28, 2027 (Fiscal Year 2028) and each year thereafter, franchise entities are prohibited from collecting a video service provider fee in excess of two and one-half percent (2.5%) of such gross revenues.

This section would require video service providers to identify and collect the fee and other specified fees as separate line items on a subscriber's bill.

Oversight notes, per information received from the Missouri Municipal League during the interim, of responding municipalities, municipalities collected \$20,451,246 in cable/franchise/video service provider fee(s) in 2016.

Oversight notes, per information received from responding municipalities during the interim, municipalities collected \$22,311,372 in video service provider fee(s) in 2018 and \$22,033,761 in video service provider fee(s) in 2019.

Using the amount reported for 2019, Oversight estimates the total gross receipts reported by video service providers totaled \$440,675,220 ($\$22,033,761 / 5\%$).

Using the estimated total gross receipts reported in 2019, Oversight estimates local revenues could decrease each fiscal year by an amount in excess of (accounting for the municipalities who did not respond and the modification(s) to the definition of "Gross Receipts"):

| Fiscal Year | Video Service Provider Fee (%) | Loss to Local Municipalities |
|--------------------|---------------------------------------|-------------------------------------|
| 2024 | 4.5% | (\$2,203,376) |
| 2025 | 4% | (\$4,406,752) |
| 2026 | 3.5% | (\$6,610,128) |
| 2027 | 3% | (\$8,813,504) |
| 2028 | 2.5% | (\$11,016,881) |
| 2029 | 2.5% | (\$11,016,881) |

For purposes of this fiscal note, **Oversight** will report a revenue reduction to local political subdivisions equal to an amount that “Could exceed” the amount(s) reported above. The “Could exceed” is the result of municipalities that did not respond to Oversight’s inquiry during the interim as well as the changes made to the definition of “Gross Receipts” which reduces the applicable items that are to be included in a video service provider’s gross receipts.

Officials from the **Office of Administration – Budget & Planning** state this section would phase-out the franchise fee for cable companies beginning August 28, 2023. This section may have an unknown negative impact on local revenues. This section will not impact Total State Revenue(s) or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this section changes how cable franchise fees are defined. DOR does not collect these fees, they are collected by political subdivisions. This provision will not have a fiscal impact on DOR. DOR defers to local political subdivisions to report the impact.

Officials from the **City of Kansas City** state this section decreases the amount franchise entities can collect from video service providers through a gradual reduction. This would have a negative fiscal impact in an indeterminate amount.

Section 67.2720 – Task Force on the Future of Right-Of-Way Management and Taxation

Oversight notes this section establishes the Task Force on the Future of Right-Of-Way Management and Taxation.

The task force shall study best methods for right-of-way management, taxation of video service providers, and the future revenue needs of municipalities and political subdivisions as such revenue relates to video services.

The task force must compile and submit a report of its activities to the General Assembly no later than December 31, 2023 which shall include any recommendations which the task force may have for legislative action(s).

This section shall expire on December 31, 2023.

For purposes of this fiscal note, **Oversight** will not report a material fiscal impact as it relates to this section.

Officials from the **Office of Administration – Budget & Planning Division** state this section creates the “Task Force on the Future Right-of-Way Management and Taxation”, beginning August 28, 2021. The task force shall study right-of-way management, taxation of video services, and revenue needs of local municipalities.

Officials from the **Missouri Department of Revenue (DOR)** note this section creates a task force to study the right-of-way and video service provider fees. This section which will not impact DOR.

Officials from the **City of Kansas City** state this section establishes a Task Force on the Future of ROW Management and Taxation. The composition of this group suggests that it may recommend policies which further reduce their ability to govern/tax right-of-way.

Section 99.020 – Housing Authorities Law

Oversight notes this section modifies the definition of “Blighted”.

Currently, the definition in Section 99.020 states “Blight” shall mean “any area where dwellings predominate which, by reason of dilapidation, overcrowding, lack of ventilation, light or sanitary facilities or any combination of these factors are detrimental to safety, health and morals”.

This section modifies the definition so that “Blighted” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. DOR is unable to estimate if this may impact the number of properties that qualify for this program in the future. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Housing Authorities laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.320 – Land Clearance for Redevelopment Law – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 99.320 states a “Blighted Area” is an area which, “by reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use”.

This section modifies the definition so that “Blighted” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. DOR is unable to estimate if this may impact the number of properties that qualify for this program in the future. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Land Clearance for Redevelopment laws. Oversight assumes the changes put forth may or may not impact future Community Improvement Districts. However, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.805 – Real Property Tax Increment Allocation Redevelopment – Definitions

Oversight notes this section modifies the definition of “Blighted Area”. This section removes from the definition the areas of defective or inadequate street layout, improper subdivision or obsolete platting and removes the condition that retards morals that currently permit classification as a blighted area.

Currently, the definition in Section 99.805 states a “Blighted Area” is “an area which, by reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use”.

This section modifies the definition so that “Blighted Area” becomes “an area which, by reason of the predominance of insanitary or unsafe conditions, deterioration of site improvements, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety or welfare in its present condition and use”.

This section modifies the definition of “Conservation Area”. This section removes morals from being a detrimental cause to become a blighted area.

This section requires that, for all redevelopment plans and projects approved on or after January 1, 2022, in a retail area, a conversation area meet the dilapidation factor as one of the three factors required.

This section establishes the definition of “Port Infrastructure Project”. A port infrastructure project shall be docks and associated equipment, cargo and passenger terminals, storage warehouses, or any other similar infrastructure directly related to port facilities located in a port district and located within one-half of one mile of a navigable waterway.

This section establishes the definition of “Retail Area”. A retail area shall be a proposed redevelopment building area for which more than fifty percent (50%) of the usable building square footage in the area is projected to be used by retail businesses, which shall be businesses that primarily sell or offer to sell goods to a buyer primarily for the buyer’s personal, family, or household use and not primarily for business, commercial or agriculture use.

This section establishes the definition of “Retail Infrastructure Projects”. Retail infrastructure projects shall be highways, roads, streets, bridges, sewers, traffic control systems and devices, water distribution and supply systems, curbing, sidewalks, storm water and drainage systems, or any other similar public improvements but in no case shall retail infrastructure projects include private structures.

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. This may impact the number of projects that qualify for this program in the future and the Department of Economic Development may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Tax Increment Financing laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.810 – Real Property Tax Increment Allocation Redevelopment – Redevelopment Plan

Oversight notes this section states a study shall be prepared by a land use planner, urban planner, licensed architect, licensed commercial real estate appraiser, or licensed attorney. The study shall detail how the area meets the definition of an area eligible to receive tax increment financing.

This section is modified to state Tax Increment Financing shall not be adopted in a retail area unless such financing is exclusively utilized to fund retail infrastructure projects or unless such area is a blighted area or conservation area. This provision shall not apply to any tax increment allocation financing project or plan approved before August 28, 2021, nor to any amendment to tax increment allocation financing projects and plans where such projects or plans were originally approved before August 28, 2021, provided that such an amendment does not add buildings of new construction in excess of twenty-five percent of the scope of the original redevelopment agreement.

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight. This will not fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Tax Increment Financing laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.820 – Real Property Tax Increment Allocation Redevelopment – Municipalities’ Power and Duties

Oversight notes this section would require that a commission of twelve (12) persons be created as opposed to a commission of nine (9) persons. Such commission shall vote on all proposed redevelopment plans, redevelopment projects and designations of redevelopment areas, and amendments thereto and shall make recommendations concerning the adoption of or amendment to redevelopment plans and redevelopment projects and the designation of redevelopment areas.

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight. This will not fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Tax Increment Financing laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.821 – Real Property Tax Increment Allocation Redevelopment – St. Louis City – Strategic Infrastructure for Economic Growth Fund

Oversight notes this section states that St. Louis City may deposit up to ten percent (10%) of the tax increment financing revenues generated from redevelopment plans approved or amended after December 31, 2021 into a Strategic Infrastructure for Economic Growth Fund in lieu of deposit into the Special Allocation Fund.

This section states the moneys deposited into the Strategic Infrastructure for Economic Growth Fund shall be expended by St. Louis City to fund capital investments in public infrastructure that the governing body of such city has determined to be in a census tract that is defined as a low-income community pursuant to 26 U.S. C. Section 45D(e) or is eligible to be designated as a qualified opportunity zone pursuant to 26 U.S.C. Section 1400Z-1.

Oversight assumes, then, the earliest that revenues could be diverted from the Special Allocation Fund and deposited in the new Strategic Infrastructure for Economic Growth Fund would be January 1, 2022 (Fiscal Year 2022).

For purposes of this fiscal note, **Oversight** will report a revenue reduction to local political subdivisions equal to an unknown amount, as the result of the reduced amount(s) of tax increment financing revenues being deposited into the Special Allocation Fund, beginning in Fiscal Year 2022.

Oversight will report a revenue gain to local political subdivisions equal to an unknown amount, as the result of the gained tax increment financing revenue being deposited into the new Strategic Infrastructure for Economic Growth Fund, beginning in Fiscal Year 2022.

Therefore, **Oversight** assumes the net fiscal impact to local political subdivisions, specific to this section, will net to zero (\$0).

Section 99.843 – Real Property Tax Increment Allocation Redevelopment – Greenfield Areas

Oversight notes this section prohibits new projects from being authorized in Greenfield areas.

Currently, tax increment financing projects may be authorized within Greenfield areas so long as such project is not located within a city not within a county or any county subject to the authority of the East-West Gateway Council of Governments.

This section prohibits any projects within Greenfield Areas.

Oversight will not show a net fiscal impact as a result of the changes made to the Tax Increment Financing laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.847 – Real Property Tax Increment Allocation Redevelopment – Flood Plains

Oversight notes this section states, for all years ending on or before December 31, 2021, no new tax increment financing project shall be authorized in any area which is within an area designated as flood plain by the Federal Emergency Management Agency and which is located in or partly within a county with a charter form of government with greater than two hundred fifty thousand inhabitants but fewer than three hundred thousand inhabitants, unless the redevelopment area actually abuts a river or major waterway and is substantially surrounded by contiguous properties with residential industrial or commercial zoning classification.

This section further states, for all years beginning on or after January 1, 2022, no new tax increment projects shall be authorized in any area which is within an area designated as a flood plain by the Federal Emergency Management Agency unless such project is located in: Jackson County, Jefferson County, Clay County, Platte County, Cole County, City of St. Joseph, City of Springfield, City of Hannibal, City of Jefferson, in a port district with such financing utilized for port infrastructure projects, or in a levee district or drainage district so long as such district was created prior to August 28, 2021.

This section provides that projects within a flood plain within St. Charles County shall not be authorized unless the redevelopment area abuts a river or major waterway.

Section 99.848 – Real Property Tax Increment Allocation Redevelopment – Ambulance Districts, Fire Protection Districts, Governing Bodies Operating 911 Centers

Oversight notes this section is modified to reduce the number of districts that receive reimbursement from the Special Allocation Fund. Currently, any district or county imposing a property tax for the purposes of providing emergency services shall be entitled to reimbursement from the Special Allocation Fund in the amount of at least fifty percent (50%) but no more than one hundred percent (100%) of the district's tax increment.

This section modifies who may be entitled to such reimbursement stating only ambulance districts, fire protection districts or any governing body operating a 911 center shall be entitled to reimbursement.

Oversight assumes the various changes to the Special Allocation Fund may impact the distributions of those funds from various projects – but would net to zero (\$0) across the local political subdivisions / districts. Oversight will reflect the impact to the Special Allocation Fund in the fiscal note.

Section 99.918 – Missouri Downtown and Rural Economic Stimulus Act – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 99.918 states a “Blighted Area” is “an area which, by reason of predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire or other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight. This will not fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Missouri Downtown and Rural Economic Stimulus Act. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 99.1082 – Downtown Revitalization Preservation Program – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 99.1082 states a “Blighted Area” is “an area which, by reason of predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire or other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. This may impact the number of projects that qualify for this program in the future and the Department of Economic Development may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Downtown Revitalization Preservation Program. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 100.310 – Planned Industrial Expansion – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 100.310 states a “Blighted Area” is “an area which, by reason of the predominance of defective or inadequate street layout, insanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals or welfare in its present condition and use”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. This may impact the number of projects that qualify for this program in the future and the Department of Economic Development may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Planned Industrial Expansion laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 135.950 – Enhanced Enterprise Zones – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 135.950 states a “Blighted Area” is “an area which, by reason of the predominance of defective or inadequate street layout, unsanitary or unsafe conditions, deterioration of site improvements, improper subdivision or obsolete platting, or the existence of conditions which endanger life or property by fire and other causes, or any combination of such factors, retards the provision of housing accommodations or constitutes an economic or social liability or a menace to the public health, safety, morals, or welfare in its present condition and use. The term “blighted area” shall also include any area which produces or generates or has the potential to produce or generate electrical energy from a renewable energy resource, and which, by reason of obsolescence, decadence, blight, dilapidation, deteriorating or inadequate site improvements, substandard conditions, the predominance or defective or inadequate street layout, unsanitary or unsafe conditions, improper subdivision or obsolete platting, or the existence of conditions which endanger the life or property by fire or other means, or any combination of such factors, is underutilized, unutilized, or diminishes the economic usefulness of the land, improvements, or lock and dam site within such area for the production, generation, conversion, and conveyance of electrical energy from a renewable energy resource”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. This may impact the number of projects that qualify for the Enhanced Enterprise Zone tax credit program in the future and the Department of Economic Development may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Enhanced Enterprise Zones laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 137.115 – Aircraft Assessed Value

Officials from the **Office of Administration - Budget and Planning** assume this section would decrease Total State Revenue by \$0 to \$500. This section will impact the calculation under Article X, Section 18(e).

This section makes multiple technical corrections to Section 137.115. This section also changes the allowed hours of flying for historical aircraft. This could increase the number of aircraft that

are eligible for a reduced property tax rate. Based on information provided by the Missouri State Tax Commission, this could decrease revenues to the Blind Pension Trust Fund by \$0 to \$500. This could also decrease local revenues by \$0 to \$90,000.

Officials from the **Missouri State Tax Commission (STC)** estimate the fiscal impact to local jurisdictions (school districts, cities, counties etc.) to be a loss of zero (\$0) to \$90,000. The change regarding non-commercial aircraft, twenty five (25) years old, from fifty (50 - current law) to two hundred (200) hours per year could have a fiscal impact on local taxing jurisdictions. STC does not have exact data of how many of the 905 aircraft in Missouri are within this criteria and threshold, or the local taxing jurisdictions with tax situs for said aircraft.

Oversight assumes this section expands the definition of aircraft used for noncommercial purposes and thus qualifying for a personal property subclass which is assessed and valued at a lower rate and will result in lower personal property taxes for qualifying aircraft.

Oversight will utilize the estimate (\$90,000) provided by the Missouri State Tax Commission. Oversight has estimated the Blind Pension Fund impact to be approximately \$400 based on the calculation below.

Calculation:

$(y/100) * 6.887$ (average effective tax rate for personal property) = \$90,000.

Estimated assessed value of qualifying aircraft: $y = \$1,306,810$.

Estimated impact to the Blind Pension Fund: $(\$1,306,810/100) * .03$ (Blind Pension tax rate) = \$392 in lost revenue).

Oversight notes local property tax revenues are designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Alternatively, some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law), rather it would result in a loss of revenue.

Based on information provided by the Office of the State Auditor, **Oversight** notes, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

Although the effective date of this section, if passed, would be Fiscal Year 2022 (August 2021), the next re-assessment cycle would not occur until Calendar Year 2023 with impacted revenues occurring in Fiscal Year 2024 (December 2023).

Officials from the **Missouri Department of Revenue (DOR)** state this section changes the hours a historic aircraft is allowed to fly from 50 hours to 200 hours for classification of real property. Currently historic airplanes that are more than 25 years old and operate for less than 50 hours are assessed at the personal property tax assessment rate of 5% rather than the standard personal property assessment rate of 33.3%. This section increases the number of hours that can be flown from 50 hours to 200 hours. Therefore the owners will be allowed to operate the planes more hours and still qualify for the reduced tax rate.

By changing the hours of operation it could potentially result in fewer aircraft being assessed at their (current) full value and thus reduce the amount of property tax owed. It is expected this could result in some political subdivision receiving less property tax though the loss is expected to be minimal. This would not fiscally impact DOR.

Section 143.011 – Individual Income Tax Rate

Oversight notes this section increases the number of rate reductions that can currently occur pursuant to SB 509 (2014) from a total of five (5) rate reductions of one-tenth of one percent (0.1%) to seven (7) rate reductions of one-tenths of one percent (0.1%).

However, **Oversight** notes this section states there shall be no reduction in the 2024 calendar year allowable pursuant to SB 509 (2014). Such rate reductions shall continue after the 2024 calendar year for subsequent calendar years.

This section further states, **in addition** to the rate reductions allowable pursuant to SB 509 (2014), and in addition to the two (2) additional tax rate reductions put forth (for a total of seven (7)), beginning with the 2024 calendar year, the top rate of tax shall be reduced by one-tenth of one percent (0.1%).

Oversight notes, two (2) of the current five (5) tax rate reductions allowable have already occurred pursuant to SB 509 (2014). This allows for, under current law, three (3) additional rate reductions to occur in future, but separate, tax years.

Currently (Tax Year 2021), the top Individual Income Tax rate is equal to 5.4%.

Oversight anticipates a tax rate reduction pursuant to SB 509 (2014) **will** occur for Tax Year 2022. This would set the top Individual Income Tax rate at 5.3% for Tax Year 2022. This would, under current law, allow for two (2) additional rate reductions to occur in future, but separate, tax years.

Oversight assumes, then, pursuant to SB 509 (2014) (2 rate reductions remaining after rate reduction anticipated for Tax Year 2022), and pursuant to this section (which increased the total number of rate reductions that could occur under SB 509 by two (2), **plus** a scheduled tax rate reduction for Tax Year 2024) five (5) additional rate reductions will occur in future (post Tax Year 2022) but separate, tax years.

Therefore, **Oversight** assumes, once fully implemented, this section could reduce the Individual Income Tax rate to 4.8%.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state **Subsection 143.011.2** would add two (2) additional 0.1% rate reductions under subdivision 2, subject to growth in net general revenue. Subdivision 143.011.2(5) would prevent a reduction under subsection 2 from occurring for Calendar Year 2024. B&P notes that it is unclear what would happen if such reduction would have otherwise been triggered for 2024. It is unclear whether such reduction would then occur in Calendar Year 2025, which could cause two (2) reductions to occur – if the growth trigger is also met in Fiscal Year 2024 for Calendar Year 2025. Or if this provision would pause subsection 2 for a year, potentially delaying the full implementation of subsection 2.

Subsection 143.011.4 would create a 0.1% reduction in the top rate of tax, beginning Calendar Year 2024.

Section 143.177 would create a non-refundable EITC, based on a percentage of a taxpayer's federal EITC amount. The tax credit shall be nonrefundable and cannot be carried forward. Beginning with Tax Year 2023, a taxpayer is allowed a credit worth 10% of their federal EITC. The tax credit will increase to 20%, pending growth in net general revenue. Subdivision 143.177.3(3) states that the EITC will not start until net general revenue in the previous fiscal year is at least \$150 million greater than the highest net general revenue amount in the prior three (3) fiscal years. The additional 10% increase in the credit is also subject to the same growth trigger requirement.

Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in Fiscal Year 2021, Fiscal Year 2024, and Fiscal Year 2025 will reach the SB 509 (2014) growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax will be reduced by 0.1% in Tax Year(s) 2022, 2025, and 2026 under SB 509 (2014). For the purpose of this fiscal note, B&P will assume that the additional reductions under Section 143.011 will occur for Tax Year 2027, 2028, and 2029. In addition, B&P estimates that the first 10% EITC will occur in Tax Year 2025 and the additional 10% will occur in tax year 2026. B&P acknowledges, however, that the rate reduction and EITC may not be triggered until a later fiscal year. Table 1 shows the estimated years in which the tax reductions and EITC would occur.

Table 1: Current vs. Proposed Tax Rates and
EITC

| Tax Year | Current Law | Proposed Reduction | Proposed Tax Rate | EITC |
|----------|-------------|--------------------|-------------------|------|
| 2021 | 5.40% | | 5.40% | |
| 2022 | 5.30% | | 5.30% | |
| 2023 | 5.30% | | 5.30% | |
| 2024 | 5.30% | 0.10% | 5.20% | |
| 2025 | 5.20% | | 5.10% | 10% |
| 2026 | 5.10% | | 5.00% | 20% |
| 2027 | 5.10% | 0.10% | 4.90% | 20% |
| 2028 | 5.10% | 0.10% | 4.80% | 20% |

Using 2018 tax year data, the most current complete year available, and accounting for the changes in Individual Income Tax law created by SB 509 (2014) and HB 2540 (2018), B&P estimates that this section will reduce TSR and GR by \$103,817,226 in Tax Year 2024. Once fully implement, B&P estimates that these provisions will reduce TSR and GR by \$349,750,111 annually. Table 2 shows the estimated impact by calendar year.

Table 2: Rate Reduction
and EITC by Calendar Year

| Tax Year | GR Impact |
|----------|-----------------|
| 2024 | (\$103,817,226) |
| 2025 | (\$127,291,955) |
| 2026 | (\$140,291,821) |
| 2027 | (\$244,328,224) |
| 2028 | (\$349,750,111) |

However, because a tax reduction would take effect January 1, 2024 individuals will adjust their withholdings and declarations during the prior fiscal year. Therefore, B&P estimates that this proposal will reduce TSR and GR by \$43,603,235 in Fiscal Year 2024. Once fully implemented this proposal will reduce TSR and GR by \$349,750,111 annually. Table 3 shows the estimated impact by fiscal year.

Table 3: Rate Reduction
and EITC by Fiscal Year

| Fiscal Year | GR Impact |
|-------------|-----------------|
| 2024 | (\$43,603,235) |
| 2025 | (\$113,676,612) |
| 2026 | (\$132,751,899) |
| 2027 | (\$183,987,110) |
| 2028 | (\$288,605,416) |
| 2029 | (\$349,750,111) |

Officials from the **Missouri Department of Revenue (DOR)** state, currently, SB 509 (2014) allows for five (5) reductions of the Individual Income Tax rate. DOR notes that under current law, two (2) of the reductions have occurred (Tax Year 2018 & Tax Year 2019) and the third is forecasted to happen in Tax Year 2022 which will set the rate at 5.3%.

This section expands the five (5) reductions to seven (7) reductions under SB 509. These reductions will also only occur if the SB 509 trigger (\$150 million) is met. Therefore, this reduction in the rate of tax shall only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars (\$150,000,000).

This provision also requires that one of the reductions begin in January 2024, which was not projected to have begun until January 2025.

DOR used its internal Income Tax Model that contains confidential taxpayer data to create the fiscal impact. DOR notes that the Individual Income Tax filing deadline that was scheduled for April 15, 2020 was moved to July 15, 2020. This move in the filing deadline is estimated to prevent the rate reduction triggers for the next three fiscal years of the original SB 509 and would additionally not allow this provision's three (3) reduction requirements to be implemented until at least Tax Year 2027. DOR believes that the tax rates, as proposed, would be as follows:

| Tax Year | Current Income Tax Rate under SB 509 | Proposed Income Tax Rate |
|----------|--------------------------------------|--------------------------|
| 2018 | 5.9% | 5.9% |
| 2019 | 5.4% | 5.4% |
| 2020 | 5.4% | 5.4% |
| 2021 | 5.4% | 5.4% |
| 2022 | 5.3% | 5.3% |
| 2023 | 5.3% | 5.3% |
| 2024 | 5.3% | 5.2% |
| 2025 | 5.2% | 5.1% |
| 2026 | 5.1% | 5.0% |
| 2027 | 5.1% | 4.9% |
| 2028 | 5.1% | 4.8% |
| 2029 | 5.1% | 4.8% |

DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact for Sections 143.011, the Individual Income Tax rate, and Section 143.131, the Missouri Working Family tax credit result in the following tax year impact.

| Tax Year | Amount |
|----------|--------------------|
| 2022 | \$0 |
| 2023 | \$0 |
| 2024 | (\$103,468,502.71) |
| 2025 | (\$126,665,808.74) |
| 2026 | (\$139,642,016.64) |
| 2027 | (\$243,289,499.57) |
| 2028 | (\$348,312,542.50) |

DOR uses a 42% in the first year and 58% in the second year to convert from tax year to fiscal year.

| Fiscal Year | Loss to GR |
|-------------|-----------------|
| 2022 | \$0.00 |
| 2023 | \$0.00 |
| 2024 | (\$43,456,771) |
| 2025 | (\$113,211,371) |
| 2026 | (\$132,115,816) |
| 2027 | (\$183,173,959) |
| 2028 | (\$287,399,178) |
| 2029 | (\$347,508,955) |

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by the Office of Administration – Budget & Planning Division.

Section(s) 143.121 and 143.171 – Economic Stimulus Exemption from Missouri Taxation

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state **Section D** contains an emergency clause. For the purpose of this fiscal note, B&P will assume that, if approved, these sections will take effect after the start of Fiscal Year 2022.

Section 143.121 states that a taxpayer shall not include any federal refunds related to COVID-19 stimulus tax credits in their Missouri Adjusted Gross Income (MAGI). B&P notes that individuals who itemize their tax deductions may be required to include federal tax refunds within their MAGI. This provision would exclude refunds due to the COVID-19 stimulus tax credit from this requirement. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and the American Recovery Plan (March 2021).

B&P notes that there have been three (3) COVID related economic stimulus payments thus far. B&P further notes that [SB 676 \(2020\)](#) previously exempted the first tax credit/stimulus payments resulting in a federal income tax refund from inclusion in a taxpayer's MAGI. Therefore, this proposed legislation would exempt the second and third rounds of payments/credits. This proposed legislation would also exempt any potential future issuances of COVID related stimulus payments.

Section 143.171 would allow taxpayers to add their COVID-19 stimulus tax credit amount back to their final federal tax due amount, for the purpose of taking the Missouri federal income tax (FIT) deduction. B&P notes that typically anything that reduces federal income taxes due would also reduce the federal income tax deduction amount. B&P further notes that this would exempt both the tax credit rebates from the Coronavirus Response & Relief Supplemental Appropriation Act (December 2020) and the American Recovery Plan (March 2021).

B&P also notes that only the portion of the tax credits that are claimed on a taxpayer's federal final annual return (i.e. any amount of the credit not directly mailed) would lower the taxpayer's federal tax liability. This would then lower the taxpayer's Missouri FIT deduction, causing an increase to their Missouri tax liability. For example: If an individual received a direct payment of \$600 for himself or herself, but qualified for an additional \$600 then that individual's federal income tax liability could be lowered by the additional \$600 rebate they claim when they file their federal 2020 tax return. This in turn could lower their Missouri FIT deduction. The \$600 direct payment that the taxpayer received is treated as a non-taxable transfer payment. The direct payment will not impact a taxpayer's federal tax liability and will thus not impact a taxpayer's Missouri FIT deduction.

The second stimulus payments/credits are \$600 per taxpayer plus an additional \$600 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000. For married taxpayer filing a joint return, the credit begins to phase out at \$174,000. For taxpayers filing as head of household, the credit begins to phase out at \$124,500. B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children,

and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 1: Economic Impact Payments – 2nd round

| Filing Status | Max Base Income | Base Credit | Credit Per Dependent | Avg. Number of Dependents* | Estimated Avg. Credit | Final Phase-Out Income (no dependents) | Final Phase Out Income (avg. # dependents) |
|----------------------|-----------------|-------------|----------------------|----------------------------|-----------------------|--|--|
| Single | \$75,000 | \$600 | \$600 | 1.42 | \$1,452.00 | \$87,000 | \$104,020 |
| Married Filing Joint | \$150,000 | \$1,200 | \$600 | 2.02 | \$2,412.00 | \$174,000 | \$198,220 |
| HOH | \$112,500 | \$600 | \$600 | 1.48 | \$1,488.00 | \$124,500 | \$142,240 |

*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million individuals will be required to apply for the tax rebate on their annual tax return in order to receive their stimulus payment. Therefore, B&P assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, B&P will assume that 12.7% of Missouri taxpayers will also receive their stimulus payments as a rebate on their tax return.

The third stimulus payments/credits were \$1,400 per taxpayer plus an additional \$1,400 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000. For married taxpayer filing a joint return, the credit begins to phase out at \$150,000. For taxpayers filing as head of household, the credit begins to phase out at \$112,500. B&P estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 2 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 2: American Recovery Plan (3rd stimulus)

| Filing Status | Max Base Income | Base Credit | Credit Per Dependent | Avg. Number of Dependents* | Estimated Avg. Credit | Final Phase-Out Income |
|----------------------|-----------------|-------------|----------------------|----------------------------|-----------------------|------------------------|
| Single | \$75,000 | \$1,400 | \$1,400 | 1.42 | \$3,388.00 | \$80,000 |
| Married Filing Joint | \$150,000 | \$2,800 | \$1,400 | 2.02 | \$5,628.00 | \$160,000 |
| HOH | \$112,500 | \$1,400 | \$1,400 | 1.48 | \$3,472.00 | \$120,000 |

*Based on tax year 2017 Missouri return data.

B&P notes that the number or percentage of individuals that will have to claim all or part of the third stimulus payment on their 2021 taxes is still unknown. For the purpose of this fiscal note, B&P will assume that the same 12.7% of the population that did not receive a direct payment for the second stimulus will also not receive the direct payment for the third stimulus. B&P notes however, that the IRS has until September 2021 to make the direct payments. Therefore, the percentage of individuals claiming the rebate on their 2021 taxes may be lower than the percent that had to claim the second rebate on their 2020 taxes.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), B&P estimates that this provision could reduce General Revenue by \$5,986,325 for the second stimulus payment and \$5,759,530 for the third stimulus payment.

B&P notes that rebates for the second stimulus package will be taken on Tax Year 2020 returns. B&P further notes that the rebates for the third stimulus package will be taken on a taxpayer's 2021 tax return.

For the purpose of this fiscal note, B&P assumes that taxpayers will not be able to amend their Tax Year 2020 return until after the start of Fiscal Year 2022. Therefore, B&P will reflect the full cost of exempting both the second and third stimulus payments in Fiscal Year 2022.

B&P also notes that it is unknown whether there will be additional stimulus packages passed during the 2021 tax year. B&P estimates that these provisions may reduce Total State Revenue(s) and General Revenue by an amount that could exceed \$11,723,401 in Fiscal Year 2022. These provision is not expected to have an impact beyond Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state in response to the COVID pandemic the U.S. Congress authorized the Internal Revenue Service to make economic stimulus payments to taxpayers. The first round of the economic stimulus payments were issued beginning in April 2020 under the CARES ACT. A second round was distributed starting in December 2020 under the Consolidated Appropriations Act. These were issued by the IRS as tax credits against taxpayer's 2020 tax return. A third round of economic payments were issued in

March 2021 as a result of the American Rescue Plan. This third payment will be issued as tax credits against the taxpayer's 2021 tax return. It was the intention of the U.S. Congress to make these stimulus payments tax free at the federal level.

However, due to the way Missouri's federal income tax (FIT) deduction works, items that decrease the federal income tax would reduce the Missouri FIT deduction which would cause an increase in a taxpayer's Missouri tax liability. The intent of this legislation is to exclude these payments from the Missouri FIT calculation and not impact a taxpayer's tax liability.

SB 676 (2020) previously exempted the first economic stimulus payments that were issued in April 2020, from inclusion in a taxpayer's FIT deduction.

DOR notes that many of the economic stimulus payments were mailed directly to taxpayers. These direct payments do not impact a taxpayer's federal liability and are not subject to the Missouri FIT deduction.

However, in some instances individuals may have qualified for an economic stimulus payment and have not received them through direct payment. As an example, the IRS announced that qualifying widows and widowers would be required to file their 2020 tax return to claim the stimulus payment. Additionally, some parents who did not get the amount they qualify for because of the children they report as dependents could also be required to complete their 2020 to get their stimulus payment. The requirement to file the 2020 tax return to receive the stimulus payment would trigger the taxability of the payment under the Missouri FIT deduction.

The second stimulus payments, which were issued in December 2020, are \$600 per taxpayer plus an additional \$600 per dependent under age 17. The payments begin to phase-out based on a taxpayer's federal adjusted gross income. For taxpayers filing single, the credit begins to phase out at \$75,000 and those over \$87,000 are not eligible. For married taxpayers filing a joint return, the credit begins to phase out at \$150,000 and those over \$174,000 are not eligible. For taxpayers filing as head of household, the credit begins to phase out at \$112,500 and those over \$124,500 are not eligible.

The third stimulus payments were issued in March 2021 and are \$1,400 per taxpayer plus an additional \$1,400 per dependent. However, the income limits for eligible taxpayers were reduced. Taxpayers filing single with adjusted gross income over \$80,000 are not eligible. For married taxpayers filing a joint return with an adjusted gross income over \$160,000 are not eligible. For taxpayers filing as head of household with an adjusted gross income of \$120,000 are not eligible.

DOR estimates that single returns claim an average of 1.42 children, married filing joint returns claim an average of 2.02 children, and head of household returns claim an average of 1.48 children. Table 1 shows the tax credit, income phase out, and the estimated average tax credit for Missouri taxpayers.

Table 1: Economic Impact Payments – 2nd round

| Filing Status | Max Base Income | Base Credit | Credit Per Dependent | Avg. Number of Dependents* | Estimated Avg. Credit | Final Phase-Out Income (no dependents) | Final Phase Out Income (avg. # dependents) |
|----------------------|-----------------|-------------|----------------------|----------------------------|-----------------------|--|--|
| Single | \$75,000 | \$600 | \$600 | 1.42 | \$1,452.00 | \$87,000 | \$104,020 |
| Married Filing Joint | \$150,000 | \$1,200 | \$600 | 2.02 | \$2,412.00 | \$174,000 | \$198,220 |
| HOH | \$112,500 | \$600 | \$600 | 1.48 | \$1,488.00 | \$124,500 | \$142,240 |

*Based on tax year 2017 Missouri return data.

Based on information published by the Washington Post, the total number of expected payments for the second stimulus is 158 million and approximately 20 million of those taxpayers will be required to apply for the stimulus payment on their 2020 federal tax return in order to receive their payment. Therefore, DOR assumes that 12.7% of taxpayers nationally could have their federal tax liability lowered due to the rebate. For the purpose of this fiscal note, DOR will use the 12.7% figure as the number of Missouri taxpayers who will also receive their stimulus payments as a rebate on their tax return.

Using 2018 tax year data, the most recent complete year available, and adjusting for SB 509 (2014) and HB 2540 (2018), DOR estimated previously that this provision could reduce general revenue by \$20,408,809. DOR reviewed this projection and realized that it used 12.7% of all tax filers instead of just the 12.7% of those that claim the FIT deductions. This resulted in an overestimation of the amount that would be impacted. The new projection is estimated to result in a loss of General Revenue of \$5,964,957 in Fiscal Year 2021 and \$5,735,960 in Fiscal Year 2022.

DOR notes that this estimate only includes qualifying individuals who did not receive a direct stimulus payment. There may be more individuals who receive a partial rebate on their final return, if they were entitled to a larger direct payment than what was originally received. Therefore, this provision could decrease Total State Revenue by more than the estimate shown above.

For the purpose of this fiscal note, DOR will assume that these second round stimulus payments will all be claimed on the 2020 federal tax return and impact the Missouri 2020 tax year returns

(being filed starting in January 2021). DOR is unable to predict if any additional economic stimulus payments will be issued by the IRS during the 2021 tax year.

Therefore, this provision is estimated to have an unknown impact in Fiscal Year 2022, when tax year 2021 returns are filed. Therefore, DOR assumes this provision may reduce Total State Revenues and General Revenue by an amount that could exceed \$5,964,957 in Fiscal Year 2021 and \$5,735,960 in Fiscal Year 2022. This provision may reduce Total State Revenue and General Revenue by an unknown amount greater than \$5,735,960 if additional stimulus payments are issued in Fiscal Year 2022. This provision is assumed to not have an impact beyond Fiscal Year 2022.

Oversight notes the estimate(s) provided by B&P and DOR were calculated using an internal tax model that contains confidential taxpayer information.

Oversight notes that it **does not currently have the resources and/or access to state tax data** to produce an independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR.

For purposes of this fiscal note, **Oversight** will report a revenue reduction equal to an amount that “Could exceed” the estimate(s) provided by B&P in Fiscal Year 2022.

Section 143.177 – Missouri Working Family Tax Credit

Oversight notes this section establishes the Missouri Working Family Tax Credit Act.

Beginning with Tax Year 2023, an eligible taxpayer shall be allowed a tax credit equal to a percentage of the amount such taxpayer would receive under the Federal Earned Income Tax Credit, as of January 1, 2021. Should the tax credit exceed the taxpayer’s tax liability, the difference shall not be refunded to the taxpayer and shall not be carried forward to any subsequent tax year.

Oversight notes “Eligible Taxpayer” is defined as “a resident individual with a filing status of single, head of household, widowed, or married filing combined who is subject to the tax imposed under Chapter 143... and who is allowed a Federal Earned Income Tax Credit”.

The percentage of the Federal Earned Income Tax Credit to be allowed as a tax credit shall be ten percent (10%), which may be increased to twenty percent (20%). The maximum percentage that may be claimed as a tax credit shall be twenty percent (20%).

Oversight notes this section states the initial percentage of tax credit that can be claimed and any increase in the percentage that may be claimed shall only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred fifty million dollars (\$150,000,000).

Thus, **Oversight** assumes the initial tax credit (10% of the Federal Earned Income Tax Credit) will only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least one hundred million dollars (\$150,000,000).

Assuming the Missouri Working Family Tax Credit Act begins January 1, 2023, Oversight assumes the first year in which a taxpayer could claim the tax credit created is Tax Year 2024, but only if the amount of net general revenue collected in Fiscal Year 2023 exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to Fiscal Year 2023 by at least one hundred million dollars (\$150,000,000). Should net general revenue collected in Fiscal Year 2023 not meet the threshold established, Oversight assumes the allowance of the tax credit would be reviewed for the next tax year.

Oversight notes the Missouri Department of Revenue is to prepare an annual report containing statistical information regarding the tax credits issued for the previous tax year, including the total amount of revenue expended, the number of credits claimed, and the average value of the credits issued to taxpayers whose earned income falls within various income ranges.

Oversight assumes, as mentioned, the first year in which a taxpayer could claim the tax credit created is Tax Year 2024. Oversight anticipates, as a result of Section 143.011, as proposed, the Individual Income Tax rate for Tax Year 2024 will be 5.2%. Oversight estimates, based on information published the Internal Revenue Service that the first year in which this tax credit is available (10% of Federal Earned Income Tax Credit), General Revenue will be reduced by \$55,527,250.

Oversight assumes, in order for the percentage used to calculate the tax credit created under this proposed legislation to increase, the same triggers established pursuant to SB 509 (2014) will be required. Therefore, Oversight assumes any increase in the percentage used to calculate the tax credit created will correspond with a reduction in the top rate of individual income tax rate, since the triggers for the two provisions are the same.

Oversight is unable to determine when future tax rate reductions will occur pursuant to SB 509 (2014) and pursuant to the provisions proposed under Section 143.011. Therefore, Oversight shows the estimated impact, for unknown fiscal years, at the different tax rate(s) allowable under current law and as proposed within this proposed legislation.

| Fiscal Year | Tax Rate | Estimated Impact To GR (20% of Federal Earned Income Tax Credit) |
|-------------|----------|--|
| Unknown | 5.1% | (\$67,805,972) |
| Unknown | 5.0% | (\$66,989,962) |
| Unknown | 4.9% | (\$66,173,952) |
| Unknown | 4.8% | (\$65,357,942) |

Officials from the **Missouri Department of Revenue (DOR)** state this section creates the MO Working Family Tax Credit program that would provide an eligible taxpayer a tax credit equal to a percentage of the amount the taxpayer would receive under the federal earned income tax credit as of January 1, 2021. The percentage starts at 10% of the federal credit and can increase to 20% of the credit if the SB 509 \$150 million income trigger is met.

DOR notes that the Individual Income Tax filing deadline that was scheduled for April 15, 2020 was moved to July 15, 2020. This move in the filing deadline is estimated to prevent the rate reduction triggers for the next three (3) fiscal years of the original SB 509 and would additionally not allow this proposal's percentage reductions to start being implemented until at least tax year 2025.

The credit is NOT refundable and cannot be carried forward. DOR used its internal Income Tax Model that contains confidential taxpayer data to calculate the fiscal impact with the Individual Income Tax changes. The impact is included in the results listed under Section 143.011.

Oversight notes the Missouri Department of Revenue and the Office of Administration – Budget & Planning Division, completed analysis of this section **and** Section 143.011 simultaneously (see Section 143.011). Therefore, Oversight will report a **combined** impact for these sections.

Section 144.049 – Back-to-School Sales Tax Holiday

Oversight notes this section eliminates the imposition of local sales tax on qualifying items during the Back-to-School Sales Tax Holiday. Currently, qualifying Back-to-School Sales Tax Holiday items are only exempt from state sales tax and local sales tax within local political subdivisions that have **not** opted out of the sales tax holiday. This section repeals the provision in current law that permits local political subdivisions to opt out of the Back-to-School Sales Tax Holiday.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section would no longer allow local municipalities to opt out of the school tax holiday. This will reduce revenues in all localities that currently opt out of the sales tax holiday.

Local sales tax collections for qualifying items during the tax holiday were \$677,464 in Fiscal Year 2018, \$432,274 in Fiscal Year 2019, and \$287,295 in Fiscal Year 2020. B&P notes that the sales tax holiday occurs in August, after the start of Fiscal Year 2024. Using a three-year average of local collections, B&P estimates that this section could reduce funds to localities that had previously opted-out of the sales tax holiday by \$465,677 ($\$677,464 + \$432,274 + \$287,295 / 3$) beginning in Fiscal Year 2024.

Officials from the **Missouri Department of Revenue (DOR)** state this section would eliminate the ability of a local political subdivision to opt out of participating in the Back to School sales tax holiday, which occurs in August annually. DOR collected \$677,463.79 in Tax Year 2018, \$432,273.52 in Tax Year 2019, and \$287,294.97 in Tax Year 2020 from jurisdictions that currently opt out of this holiday. This will be a decrease in revenue to the local jurisdictions that currently opt out.

This section has an effective date of January 1, 2023. Thus, this section would begin in Fiscal Year 2024 as the first holiday that would occur after January 1, 2023 would be in August 2023 (Fiscal Year 2024). Due to economic disruptions that occurred in Tax Year 2020, DOR will use a three year average to estimate the future fiscal impact (\$465,677).

Officials from the **City of Kansas City** state this section makes permanent the Back-To-School Sales Tax Holiday which could result in a negative fiscal impact of an indeterminate amount.

Oversight will report the revenue reduction to local political subdivisions equal to the amount(s) reported by B&P and DOR.

Section 144.054 – Manufacturing Sales Tax Exemption

Oversight notes this section would expand the manufacturing sales tax exemption to include local sales tax. Currently, the manufacturing sales tax exemption is only applicable to state sales tax.

Officials from the **Office of Administration – Budget & Planning (B&P)** stated this section would expand the manufacturing sales tax exemption to include local sales tax. In Fiscal Year 2020, the most recent year data is available; there were \$853,312,101 in taxable sales, with estimated local sales tax collections of \$36,052,436.

Therefore, B&P estimates that this section will reduce local sales tax collections by \$16,767,583 (\$33,535,166 / 2) during Fiscal Year 2023. Once fully implemented in Fiscal Year 2024, and annually thereafter, this section will reduce local sales tax collections by \$33,535,166.

Officials from the **Missouri Department of Revenue (DOR)** state, currently, there is a state sales and use tax manufacturing exemption. Local political subdivisions are currently allowed to collect their portion of the sales and use tax. This section would end the local's ability to continue to collect the tax.

DOR tracked an estimated \$854,639,269.76 in taxable sales that came from manufacturing in Fiscal Year 2020. Taking the total taxable sales by the population weighted average local sales tax rate for Missouri (3.93%) would cause an estimated revenue reduction to the local political subdivisions of \$33,587,323.

This section has an effective date of January 1, 2023. This provision would result in six (6) months of reduced revenue to local political subdivisions in Fiscal Year 2023 of \$16,793,662.

Oversight will report the revenue reduction to local political subdivisions as reported by DOR.

Section 144.080 – Seller Responsibility to Pay Sales Tax

Oversight notes this section states where the aggregate amount levied and imposed upon a seller is in excess of five hundred dollars (\$500) per calendar month during the previous calendar year, the seller shall file a return and pay such aggregate amount on a monthly basis. The return shall be filed and taxes paid on or before the twentieth day of the succeeding month.

Oversight notes this section states, where the aggregate amount levied and imposed upon a seller is five hundred dollars (\$500) or less per calendar month, but is at least two hundred dollars (\$200) in a calendar quarter during the previous calendar year, the seller shall file a return and pay such aggregate amount on a quarterly basis. The return shall be filed and the taxes paid on or before the last day of the month following each calendar quarter.

Oversight notes this section states where the aggregate amount levied and imposed upon a seller is less than two hundred dollars (\$200) per calendar quarter during the previous calendar quarter, the seller shall file a return and pay such aggregate amount on an annual basis.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state **Section 144.080** would change the filing thresholds for sales tax. The following table shows the current DOR regulation versus this proposal.

| Filing Frequency | Current Regulation | Proposal |
|------------------|--|--|
| Monthly | Collections \geq \$500 per month | Collections $>$ \$500 per month |
| Quarterly | Collections $<$ \$500 per month Collections \geq \$100 in a quarter | Collections $<$ \$500 per month Collections \geq \$200 in a quarter |
| Annual | Collections $<$ \$100 in a quarter | Collections $<$ \$200 in a quarter |

This section would allow filers who collect between \$100 and \$200 in a calendar quarter to file on an annual basis rather than the quarterly basis that is currently required by DOR regulation.

B&P is unable to determine how many sales tax filers would be impacted by this proposal; however, B&P notes that quarterly sales tax collections are approximately 14% of total sales tax collections. However, B&P is unable to determine of that 14%, how many businesses have collections between \$100 and \$200 in a quarter.

Officials from the **Missouri Department of Revenue (DOR)** state this section outlines the guidance for determining a taxpayer's filing frequency and the taxpayer's obligation to file a sales and/or use tax return and by what date. DOR has been granted rule making authority to increase the amount of sales that would change the filing frequency. DOR last changed the amounts in 12 CSR 10-104.030 which was effective January 15, 2013.

Currently those with sales over \$500 per DOR rule are required to file monthly, while those with \$100 to \$500 in sales file quarterly and those under \$100 filing annually. The monthly filers owe their return by the 20th of the month while the quarterly filers file at the end of the following month and annual filers file on January 31st of the following year.

Section 144.080.2 updates the statute from its current \$250 to qualify as a monthly filer to the current \$500 per DOR rule. This section also changed how DOR calculates the monthly filing frequency. Currently, DOR looks at the previous calendar quarter and if you exceed the \$500 then you begin filing monthly. This section requires DOR to look at the previous calendar year before triggering the monthly filing requirement. At this time, DOR is not sure how many taxpayers may be impacted by this change.

This section also updated the statutory language to require those less than \$200 (previously \$45 per statute) to file annually. DOR's current rule require those less than \$100 in sales to file annually. This will increase the number of taxpayers that will be eligible to file annually. DOR will need to notify those currently between \$100 and \$200 that they would be allowed to file annually instead of quarterly. It should be noted that taxpayers are allowed to file more frequently than statutorily required, so DOR does not know if any that file quarterly would choose to file annually instead.

Due to the change in the amount that triggers quarterly filing (\$200), this section updated the language for quarterly filers to reflect the \$200 to \$500 range.

DOR does not anticipate a fiscal impact as this only changes when the tax is owed, it does not change how much is owed. DOR does recognize there may be a timing adjustment receipt of funds during the first year after implementation.

Oversight notes this provision does not change the aggregate amount of sales tax remitted to the State. Rather, this provision changes when businesses will remit the sales tax. While this could impact when the money is received (timing difference/cash flow), it will not impact total amount received. Also, as noted above, this provision would not have a material impact on the timing of sales tax remittances. Therefore, for purposes of this fiscal note, Oversight will not show a material fiscal impact, as it relates to this section.

Section 144.140 – Monetary Allowance for Certified Service Providers

Oversight notes this section requires the Missouri Department of Revenue to provide a monetary allowance to Certified Service Providers from the taxes collected and remitted by such Certified Service Providers. The allowance shall be funded entirely from moneys collected by the Certified Service Provider. No Certified Service Provider shall receive both the two percent (2%) timely filing discount, which is permitted under current law, and the monetary allowance created under this section.

Oversight notes the allowance amount shall be determined under the terms of a certified service contract signed with the Certified Service Provider.

Oversight notes “Certified Service Provider” shall mean “an agent certified by the Missouri Department of Revenue to perform all the seller’s sales and use tax functions, other than the seller’s obligation to remit tax on its own purchases.

Oversight notes this section states that the provisions of this section relating to the allowance for timely remittance of sales tax payment shall also be applicable to the timely remittance of use tax payment under Section(s) 144.600 to 144.746.

Oversight assumes, then, that allowance permitted to Certified Service Providers could reduce the revenue(s) recognized in relation to the use tax(es) collected from online retailers and marketplace facilitators.

Officials from the **Office of Administration – Budget & Planning Division** state this section would grant a monetary allowance to Certified Service Providers (CSPs).

Section 144.526 – Show-Me Green Sales Tax Holiday

Oversight notes this section would eliminate the imposition of local sales and use tax on qualifying items during the Show-Me Green Sales Tax Holiday. Currently, qualifying Show-Me Green Sales Tax Holiday items are only exempt from state sales tax unless local political subdivision(s) wish to participate in the holiday. This section repeals the provision in current law that permits local political subdivisions to opt out of the Show-Me Green Sales Tax Holiday.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section would no longer allow local political subdivisions to opt out of the Show Me Green sales Tax Holiday. This will reduce revenues in all localities that currently opt-out of this sales tax holiday.

Local sales tax collections for qualifying items during the tax holiday were \$19,844 in Fiscal Year 2018, \$21,439 in Fiscal Year 2019, and \$42,667 in Fiscal Year 2020.

B&P notes that the sales tax holiday occurs in April, before the end of Fiscal Year 2023. Using a three (3) year average of local collections, B&P estimates that this section could reduce funds to localities that had previously opted-out of the sales tax holiday by \$27,983 ($\$19,844 + \$21,439 + \$42,667 / 3$) beginning in Fiscal Year 2023.

Officials from the **Missouri Department of Revenue (DOR)** state this section would eliminate the ability of a local political subdivision to opt out of participating in the Show Me Green Sales Tax Holiday, which occurs in April annually. In Tax Year 2018, DOR collected \$19,843.65, in Tax Year 2019, DOR collected \$21,439.46 and in Tax Year 2020, DOR collected \$42,666.70 from local jurisdictions that currently opt out of this holiday. This section will decrease revenue to the local jurisdictions that currently opt out.

This section has an effective date of January 1, 2023. This section would begin in Fiscal Year 2023 as the holiday occurs in April 2023 (Fiscal Year 2023). Due to economic disruptions that occurred in Tax Year 2020, DOR will use a three (3) year average to estimate the future fiscal impact (\$27,983).

Officials from the **City of Kansas City** state this section makes permanent the Show-Me Green Sales Tax Holiday which could result in a negative fiscal impact of an indeterminate amount.

For purposes of this fiscal note, **Oversight** will report a reduction to local political subdivisions equal to the amount(s) estimated by B&P and DOR.

Section 144.605 & 144.752 – Online Use Tax

Oversight notes Section 144.605 modifies the definition of “engages in business activities within this state.” The modified definition includes: selling tangible personal property for delivery into this state, provided the seller’s gross receipts from taxable sales from delivery of

tangible personal property into this state in the previous calendar year or current calendar year exceeds one hundred thousand dollars (\$100,000).

Oversight assumes this will require retailers that do not have a physical presence in Missouri to collect and remit use tax on purchases delivered into Missouri provided total gross receipts from the applicable taxable sales are in excess of one hundred thousand dollars (\$100,000) in any calendar year.

Oversight notes Section 144.605 states that any department that has constitutional authority to collect sales or use tax under Article IV of the Constitution of Missouri may remit any moneys collected under this paragraph to the Missouri Department of Revenue for such money to be deposited into General Revenue.

Oversight notes Section 144.605 states that any vendor that meets the threshold (\$100,000 of gross receipts from taxable sales into this state) shall not be subject to local use tax that was enacted prior to January 1, 2023 unless: 1) the vendor was or would have been, under the laws of this state as recognized prior to January 1, 2023, subject to local use tax, or 2) a majority of the voters in the political subdivision have approved, after January 1, 2023, an expansion of the local use tax.

In addition, any vendor that meets the threshold (\$100,000 of gross receipts from taxable sales into this state) shall be subject to any new local use tax that is enacted on or after January 1, 2023.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** stated these sections require retailers and marketplace facilitators that do not have a physical presence within Missouri to collect and remit sales tax on purchases delivered into Missouri beginning January 1, 2022. Only retailers with gross revenue greater than \$100,000 from taxable sales into Missouri would be required to collect Missouri sales tax.

B&P notes that these sections would delete the existing language in **Section 144.605 Paragraphs (e) and (f)** replacing that language with the online use tax vendor language. Paragraph (e) contains a \$10,000 threshold for certain vendor activity. Based on information provided by the Missouri Department of Revenue, no sales tax money has been collected under the current provision. Therefore, B&P estimates that this provision will not impact Total State Revenue(s) or the calculation under Article X, Section 18(e).

Subsection 144.637.3 requires that the lowest combined tax rate within a zip code area must be applied if there are multiple tax rates within the zip code. B&P notes that using the lowest combined local tax rate may reduce the local sales tax collections estimated for online sales.

Section 144.752 defines market place facilitators and states that a facilitator counts as one seller. Starting January 1, 2023, market place facilitators must register with DOR and begin remitting sales tax on behalf of individual marketplace sellers. B&P notes that this provision would apply

to retailers such as Amazon's market place, ETSY, EBAY, etc. Subsection 144.752.4 grants eligible marketplace facilitators a 2% timely filing discount. This section explicitly excludes internet advertisers, travel agencies, and third party financial institutions from the definition of marketplace facilitators. These exclusions will not impact the estimates provided in this analysis.

B&P & DOR – Online Use Tax Collection Summary

OA-Budget and Planning (B&P) and the Department of Revenue (DOR) worked together to estimate the potential revenue gains from the U.S. Supreme Court *Wayfair* decision, which overturned the *Quill* decision and held that states may charge a tax on purchases made from out-of-state sellers, even if the seller doesn't have a physical presence in the taxing state. In November 2017, the U.S. Government and Accountability Office (GAO) released state-by-state estimates for potential revenue gains if the 1992 *Quill* decision were overturned during the *Wayfair* case. In the report, the GAO estimated that Missouri could gain \$180 million to \$275 million in state and local sales taxes during 2017 from e-commerce sales tax revenue. B&P notes that there were three (3) limitations to the study which B&P and DOR attempted to address by further refining the GAO estimates.

At the time of the study, the GAO did not remove the sales of digital downloads from the state and local estimates due to data limitations and different tax treatments across states. B&P notes that digital downloads are currently exempt from sales tax under Missouri law. B&P and DOR were able to find limited studies on the e-commerce market share for such sales. The studies indicated that digital downloads account for approximately 14.1% of all e-commerce sales. B&P and DOR then reduced the original GAO estimates by that 14.1%.

The GAO provided a point-in-time estimate for potential state and local revenue gains during 2017. This estimate, though, does not account for anticipated growth in e-commerce sales. To address this, B&P and DOR adjusted the GAO estimate to incorporate e-commerce sales growth for tangible personal property from 2018 through 2022. Only growth for e-commerce sales of tangible personal property were used, rather than growth in the full e-commerce market, in order to accurately reflect growth in the online sales tax base. B&P notes that using growth in the full e-commerce market would overestimate the sales tax base as services and digital download products are not currently taxable in Missouri.

At the time of the study, the GAO did not incorporate potential in-state sales or in-state transaction requirements that would limit the companies required to comply with e-commerce sales tax collections. Using data published by the U.S. Census Bureau and industry reports, B&P and DOR were able to estimate the percent of sales that would remain taxable if Missouri instituted an in-state sales threshold of \$100,000. If Missouri were to enact a \$100,000 in-state sales threshold, B&P and DOR estimate that approximately 86.7% of all e-commerce sales would remain taxable. B&P and DOR used this estimate to further adjust the GAO provided revenue estimate.

B&P and DOR were unable to estimate the impact from a potential in-state transaction requirement. B&P notes that the majority of states are currently enacting e-commerce sales tax requirements of \$100,000 in in-state sales or 200 in-state transactions.

B&P estimates that Calendar Year 2023 Missouri could gain up to \$111.7 million to \$170.7 million in Total State Revenue(s). By Calendar Year 2029, B&P and DOR estimate that Total State Revenue(s) could be increased by \$131.6 million to \$201.1 million. Table 1 shows the estimated impact by calendar year.

Table 1: Collections by Calendar Year

| Revenue Estimates | 2023 | | 2024 | | 2025 | |
|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Low | High | Low | High | Low | High |
| General Revenue | \$79,336,120 | \$121,207,962 | \$82,201,766 | \$125,586,032 | \$84,339,012 | \$128,851,269 |
| Education (SDTF) | \$26,445,373 | \$40,402,654 | \$27,400,589 | \$41,862,011 | \$28,113,004 | \$42,950,423 |
| Conservation | \$3,305,672 | \$5,050,332 | \$3,425,074 | \$5,232,751 | \$3,514,126 | \$5,368,803 |
| Parks, Soil, Water | \$2,644,537 | \$4,040,265 | \$2,740,059 | \$4,186,201 | \$2,811,300 | \$4,295,042 |
| TSR | \$111,731,702 | \$170,701,213 | \$115,767,487 | \$176,866,995 | \$118,777,442 | \$181,465,537 |
| Local | \$41,057,375 | \$62,726,544 | \$42,540,380 | \$64,992,247 | \$43,646,430 | \$66,682,045 |

**Section 144.637.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.*

Table 1: Collections by Calendar Year (cont.)

| Revenue Estimates | 2026 | | 2027 | | 2028 | |
|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Low | High | Low | High | Low | High |
| General Revenue | \$86,531,827 | \$132,201,401 | \$88,781,654 | \$135,638,638 | \$91,089,977 | \$139,165,242 |
| Education (SDTF) | \$28,843,942 | \$44,067,134 | \$29,593,885 | \$45,212,879 | \$30,363,326 | \$46,388,414 |
| Conservation | \$3,605,493 | \$5,508,392 | \$3,699,236 | \$5,651,610 | \$3,795,416 | \$5,798,552 |
| Parks, Soil, Water | \$2,884,394 | \$4,406,713 | \$2,959,388 | \$4,521,288 | \$3,036,333 | \$4,638,841 |
| TSR | \$121,865,656 | \$186,183,640 | \$125,034,163 | \$191,024,415 | \$128,285,051 | \$195,991,049 |
| Local | \$44,781,237 | \$68,415,778 | \$45,945,549 | \$70,194,589 | \$47,140,134 | \$72,019,648 |

**Section 144.637.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.*

Table 1: Collections by Calendar Year (cont.)

| Revenue Estimates | 2029 | |
|------------------------|----------------------|----------------------|
| | Low | High |
| General Revenue | \$93,458,317 | \$142,783,539 |
| Education (SDTF) | \$31,152,772 | \$47,594,513 |
| Conservation | \$3,894,097 | \$5,949,314 |
| Parks, Soil, Water | \$3,115,277 | \$4,759,451 |
| TSR | \$131,620,463 | \$201,086,817 |
| Local | \$48,365,777 | \$73,892,159 |

**Section 144.637.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.*

B&P and DOR estimate that in Fiscal Year 2023 Total State Revenue(s) could increase by \$55.9 million to \$85.4 million. By Fiscal Year 2029, B&P and DOR estimate that Total State Revenue(s) could increase by \$130.0 million to \$198.5 million. Table 2 shows the estimated impact by fiscal year.

Table 2: Collections by Fiscal Year

| Revenue Estimates | FY 2023 | | FY 2024 | | FY 2025 | |
|------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Low | High | Low | High | Low | High |
| General Revenue | \$39,668,060 | \$60,603,981 | \$80,768,943 | \$123,396,997 | \$83,270,389 | \$127,218,651 |
| Education (SDTF) | \$13,222,687 | \$20,201,327 | \$26,922,981 | \$41,132,333 | \$27,756,797 | \$42,406,217 |
| Conservation | \$1,652,836 | \$2,525,166 | \$3,365,373 | \$5,141,542 | \$3,469,600 | \$5,300,777 |
| Parks, Soil, Water | \$1,322,269 | \$2,020,133 | \$2,692,298 | \$4,113,233 | \$2,775,680 | \$4,240,622 |
| TSR | \$55,865,851 | \$85,350,607 | \$113,749,595 | \$173,784,104 | \$117,272,465 | \$179,166,266 |
| Local | \$20,528,688 | \$31,363,272 | \$41,798,878 | \$63,859,396 | \$43,093,405 | \$65,837,146 |

**Section 144.637.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.*

Table 2: Collections by Fiscal Year (cont.)

| Revenue Estimates | FY 2026 | | FY 2027 | | FY 2028 | |
|------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Low | High | Low | High | Low | High |
| General Revenue | \$85,435,420 | \$130,526,335 | \$87,656,741 | \$133,920,020 | \$89,935,816 | \$137,401,940 |
| Education (SDTF) | \$28,478,473 | \$43,508,779 | \$29,218,914 | \$44,640,007 | \$29,978,606 | \$45,800,647 |
| Conservation | \$3,559,810 | \$5,438,598 | \$3,652,365 | \$5,580,001 | \$3,747,326 | \$5,725,081 |
| Parks, Soil, Water | \$2,847,847 | \$4,350,878 | \$2,921,891 | \$4,464,001 | \$2,997,861 | \$4,580,065 |
| TSR | \$120,321,549 | \$183,824,589 | \$123,449,910 | \$188,604,028 | \$126,659,608 | \$193,507,732 |
| Local | \$44,213,834 | \$67,548,912 | \$45,363,393 | \$69,305,184 | \$46,542,842 | \$71,107,119 |

**Section 144.637.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.*

Table 2: Collections by Fiscal Year (cont.)

| Revenue Estimates | FY 2029 | |
|------------------------|----------------------|----------------------|
| | Low | High |
| General Revenue | \$92,274,147 | \$140,974,391 |
| Education (SDTF) | \$30,758,049 | \$46,991,464 |
| Conservation | \$3,844,757 | \$5,873,933 |
| Parks, Soil, Water | \$3,075,805 | \$4,699,146 |
| TSR | \$129,952,758 | \$198,538,933 |
| Local | \$47,752,956 | \$72,955,904 |

**Section 144.637.3 requires that the lowest combined tax rate within a zip code be used to determine local sales tax due. This may lower the actual local tax collections.*

B&P notes that these estimates reflect the full potential revenue and do not include adjustments for implementation timing or business compliance. Therefore, the actual revenue collected in earlier years may be significantly lower than the estimated amount.

B&P further notes that the COVID-19 pandemic has changed current consumer behavior. It is unknown yet if and how much of these consumer behavior changes will remain permanent. While these estimates account for some of the behavior changes seen to date, a more permanent shift could alter actual revenues.

For purposes of this fiscal note, **Oversight** will report the estimated impact(s) of these sections, as estimated by B&P and DOR.

Officials from the **Missouri Department of Revenue (DOR)** would notify an estimated 200,000 sellers of their potential reporting requirements, estimated postage and printing costs for notifications to online sellers may be up to an estimated \$100,000.

DOR's Sales/Use Tax Division anticipates the need for three (3) Associate Customer Service Representatives (\$24,360 annual salary/FTE) to process additional sales/use tax returns, one (1) Associate Customer Service Representative to respond to additional correspondence, two (2) Associate Customer Service Representatives to process additional registration applications and perform location maintenance, one (1) Associate Customer Service Representative to process additional refund requests under Section 144.190.

DOR states DOR will need to increase the number of auditors; especially those in out-of-state offices, in order to address the potential of a greater non-compliant tax base. DOR will need to add twenty-five (25) Associate Auditors. DOR believes the need for twenty-five total Associate Auditors could increase over a period of time, as DOR generally performs three-year audits and there will be limited records to audit in the first several years following implementation of this proposed bill. DOR notes the Associate Auditors would be located as follows:

- Dallas – 7 (\$48,309.36 per FTE)
- New York – 5 (\$62,409.84 per FTE)
- Chicago – 5 (\$52,275.12 per FTE)
- St. Louis – 3 (\$44,784.48 per FTE)
- Kansas City – 2 (\$44,784.48 per FTE)
- Springfield -2 (\$44,784.48 per FTE)
- Central Office in Jefferson City – 1 (\$44,784.48 per FTE)

DOR also anticipates it will need two (2) additional auditors in training (44,784 annual salary/FTE) to perform discovery work needed to identify potential audit leads from non-registered businesses. These auditors would be located in Dallas and Kansas City.

For purposes of this fiscal note, **Oversight** will include DOR's administrative impact(s) being paid from General Revenue.

Oversight conducted independent analysis in relation to the impact(s) to state revenues should legislation be passed that would require out-of-state/online retailers and marketplace facilitators to collect and remit Missouri use tax. Oversight's analysis supports B&P's and DOR's estimated impact(s).

Oversight notes, the overall impact of requiring out-of-state/online retailers and marketplace facilitators to remit use tax is **largely dependent** on the percentage of collections from out-of-state/online retailers and marketplace facilitators that Missouri is currently receiving versus the percentage that is not currently collected from such entities.

Currently, the **actual** participation in sales/use tax remittance by out-of-state/online retailers and/or marketplace facilitators cannot be identified. If Missouri is currently collecting sales/use tax(es) from out-of-state/online retailers and marketplace facilitators at a rate higher than estimated, the actual impact(s) of these sections, compared to the impact(s) reported above, could prove to be lower.

Oversight notes, at some point, revenues generated through online retail sales could simply **replace** (net \$0) revenues currently generated from Missouri's brick and mortar operations. For example, if there is a continuous increase in the percent of total retail sales that are online retail sales, eventually, it would suggest that one hundred percent (100%) of all retail sales are that of online retail sales. This does not indicate that state revenues would increase significantly. Rather, the source of the tax would simply shift from brick and mortar operations to online retailers.

Oversight is unable to determine at what point an increase in the percent of total retail sales that are online retail sales becomes a transition of tax revenues from brick and mortar sales to online retail sales.

Oversight further notes, though, if legislation is not passed that requires out-of-state/online retailers and/or marketplace facilitators to remit applicable Missouri tax(es), that state revenues could decrease should a continuous transition of retail sales from brick and mortar sales to online retail sales occur; a loss of revenues currently collected.

Officials from the **Missouri Department of Natural Resources (DNR)** state DNR's Parks and Soils Sales Tax Fund(s) are derived from one-tenth of one percent of sales and use tax pursuant to Article IV, Section 47(a) of the Missouri Constitution. Any increase in sales [and use] tax collected could increase the revenue to the Parks and Soils Sales Tax Fund(s). DNR assumes any increase in revenue to the Parks and Soils Sales Tax Fund(s) would be used for the purposes established under Article IV, Section 47(a) of the Missouri Constitution.

DNR assumes the Missouri Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposed legislation.

Officials from the **Missouri Department of Conservation (MDC)** assume this proposed legislation will have an unknown fiscal impact, but greater than \$250,000.

MDC further states 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. Any increase in sales and use tax would increase revenue to the Conservation Sales Tax Fun(s). However, MDC states the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax.

MDC assumes the Missouri Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposed legislation.

Officials from the **City of Kansas City** state these sections would generally result in a positive fiscal impact.

Section 144.608 – DOR Consulting

Oversight notes this section permits the Missouri Department of Revenue to consult, contract and work jointly with the streamlined sales and use tax agreement's governing body or with Certified Service Providers to more efficiently secure the payment of and accounting for taxes collected and remitted by retailers and vendors.

Oversight notes this section states the Missouri Department of Revenue is authorized to independently take such actions as may be reasonably necessary to secure the payment of and account for the tax collected and remitted by retailers and vendors.

The Missouri Department of Revenue shall independently carry out any or all activities relating to the collection of online use tax if the Missouri Department of Revenue determines that independent carrying out such activities would promote cost-saving to the state.

Officials from the **Office of Administration – Budget & Planning Division** state Section 144.608 would allow the Missouri Department of Revenue to consult, contract, and work with the Streamlined Sales and Use Tax Agreement’s (SSUTA) governing board and/or directly with CSPs. Subsection 144.608.2 authorizes the Missouri Department of Revenue to work independently of the SSUTA governing board and CSPs if doing so would promote cost savings to the state. Subsection 144.608.4 adds a five-year sunset after the effective date, unless reauthorized.

Officials from the **Missouri Department of Revenue (DOR)** state this section allows DOR to contract with the Streamlined Sales and Use Tax Agreement Governing Board (SSUTA) to register and collect the use tax from certified service providers that is required under this proposed legislation. This provision of contracting with the SSUTA would expire in 5 years. After that time, DOR would need to provide the ability to register and collect the tax from a system created by DOR. DOR would need to pay the annual fee to use the SSUTA system while creating their own. At this point DOR assumes the new system could cost up to \$1 million to be created.

For purposes of this fiscal note, **Oversight** will include DOR’s anticipated administrative costs as it relates to this section. Oversight notes the cost will be included in DOR’s equipment and expense cost(s).

Section 144.637 – DOR Tax Database

Oversight notes this section requires the Missouri Department of Revenue to create and maintain a database that describes boundary changes for all taxing jurisdictions with the effective date of such changes.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section requires the Missouri Department of Revenue to provide an maintain a database for assigning taxing jurisdictions and the associated rates. Vendors are required to use the database in determining the amount of use tax to collect and remit. Any and all databases created, maintained, or certified by the Missouri Department of Revenue must be downloadable and provided at no cost to vendors for their use in collecting and remitting use taxes.

This section will not impact Total State Revenue(s) or the calculation under Article X, Section 18(e). B&P defers to the Missouri Department of Revenue for the estimated cost to the agency from this section.

Officials from the **Missouri Department of Revenue (DOR)** state this section states that the Director of Revenue shall provide and maintain a database that describes boundary changes for all taxing jurisdictions and the effective dates of such changes for the use of vendors collecting tax.

This section states that for the identification of counties and cities, codes corresponding to the rates shall be provided according to Federal Information Processing Standards. For the identification of all other jurisdictions, codes corresponding to the rates shall be in a format determined by the director. Additionally it requires the lowest combined tax rate be imposed in a zip code area if more than one tax rate applies.

This section states that the electronic databases provided for in subsections 1, 2, and 3 shall be in downloadable format as determined by the director. The databases shall be provided at no cost to the user of the database, and no vendor shall be liable for reliance upon erroneous data provided by the director on tax rates, boundaries, or taxing jurisdiction assignments.

DOR anticipates that this section would require a totally new program that would require DOR to contract with a certified service provider. DOR believes the fiscal impact for this would be significantly greater than \$1 million. DOR has reached out to multiple CSP providers, though they have yet to get any definitive fiscal response. DOR will continue to research and update when needed.

For purposes of this fiscal note, **Oversight** will include DOR's anticipated administrative costs as it relates to this section. Oversight notes the cost will be included in DOR's equipment and expense cost(s) for Fiscal Year 2022.

Section 144.638 – DOR Taxability Matrix

Oversight notes this section would require the Missouri Department of Revenue to complete and maintain a taxability matrix to be used by retail sellers when determining the appropriate tax to collect and remit.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section requires the Missouri Department of Revenue to provide and maintain a taxability matrix. Vendors are required to use the matrix in determining the amount of use tax to collect and remit. Any and all databases created, maintained, or certified by the Missouri Department of Revenue must be downloadable and provided at no cost to vendors for their use in collecting and remitting use taxes.

This section will not impact Total State Revenue(s) or the calculation under Article X, Section 18(e). B&P defers to the Missouri Department of Revenue for the estimated cost to the agency from this section.

Officials from the **Missouri Department of Revenue (DOR)** state this section would require a totally new program that would require the Department to contract with a vendor. DOR believes the fiscal impact for this would be significantly greater than \$5 million. This section requires DOR to have a specific code for every single product and taxing district, and to update when new products hit the market. This will result in an unknown, but potentially significant administrative impact.

For the purposes of this fiscal note, DOR will estimate a need for three (3) Associate Customer Service Representatives (\$24,360 per FTE). If the administrative impact is more significant than anticipated, additional FTE will be requested through the appropriations process.

For purposes of this fiscal note, **Oversight** will include DOR's anticipated administrative costs as it relates to this section. Oversight notes the cost of "significantly greater than \$5 million" will be included in DOR's equipment and expense cost(s) for Fiscal Year 2022.

Section 144.710 – Use Tax Timely Filing Discount

Oversight notes this section has been repealed. However, the discount permitted under this section will now be referenced, and allowed, under Section 144.140.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section replaces the use tax timely filing discount with the sales tax timely filing discount. B&P notes that under current law, both discounts are the same rate and have the same requirement terms. Therefore, B&P estimates that this section will not impact Total State Revenue(s) or the calculation under Article X, Section 18(e).

Section 144.757 – Local Use Tax Ballot Language

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section would alter the ballot language for certain local sales and use taxes which must be voter approved. The language removes the \$2,000 minimum threshold required before a purchaser must file a use tax return. B&P notes that currently Missouri residents are not required to file a use tax return until total purchases within a calendar year reaches \$2,000.

However, once that minimum threshold has been reached, taxpayers are already required to pay use tax on the full amount of purchases, not just the amount over \$2,000. While use tax is legally due on all out-of-state purchases, B&P notes that it is not cost effective to audit taxpayers whose online purchases are lower than \$2,000.

Therefore, this section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the ballot language that must be used when submitting a sales and use tax issue to the voters to be approved. DOR assumes no fiscal impact as a result of the changes to the wording of the ballot language.

Section 144.759 – Local Use Tax Distribution

Oversight assumes this may change the current distribution; therefore, Oversight will reflect a potential impact to local political subdivisions within St. Louis County (some positive and some negative) – all of which will **net to zero**.

Therefore, **Oversight** will report a revenue gain equal to unknown followed by a revenue reduction equal to unknown.

Officials from the **Office of Administration – Budget & Planning Division** state this section would change how use taxes are distributed within St. Louis County. This section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Missouri Department of Revenue** state this section will change how money is distributed to St. Louis County. This will not impact DOR.

Sections 144.1000 – 144.1015 – Simplified Sales and Use Tax Administration Act

Oversight notes this proposed legislation eliminates Section(s) 144.1000 – 144.1015; the Simplified Sales and Use Tax Administration Act.

Oversight does not anticipate the elimination of Section(s) 144.1000 – 144.1015 will result in a fiscal impact.

Section 262.900 – Urban Agriculture Zones – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 262.900 states a “Blighted Area” is “that portion of the city within which the legislative authority of such city determines that by reason of age, obsolescence, inadequate, or outmoded design or physical deterioration have become economic and social liabilities, and that such conditions are conducive to ill health, transmission of disease, crime or inability to pay reasonable taxes”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state this section modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. This may impact the number of projects that qualify for this program in the future and the Department of Agriculture may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Urban Agriculture Zones laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 353.020 – Urban Redevelopment Corporations Law – Definitions

Oversight notes this section modifies the definition of “Blighted Area”.

Currently, the definition in Section 353.020 states a “Blighted Area” is “that portion of the city within which the legislative authority of such city determines that by reason of age, obsolescence, inadequate or outmoded design or physical deterioration have become economic and social liabilities, and that such conditions are conducive to ill health, transmission of disease, crime or inability to pay reasonable taxes”.

This section modifies the definition so that “Blighted Area” becomes the same as defined in Section 99.805 (as modified – see Section 99.805 in this fiscal note).

Officials from the **Missouri Department of Revenue (DOR)** state modifies the definition of blight to remove the requirement of being declared blighted under current law. It requires that to be a blighted area a land tract must be eligible to be designated as a qualified opportunity zone under federal law. This may impact the number of projects that qualify for this program in the future and the Department of Economic Development may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Oversight will not show a net fiscal impact as a result of the changes made to the Urban Redevelopment Corporations laws. Oversight assumes the changes put forth may or may not impact future development projects; however, Oversight assumes this would be an indirect impact of the proposed legislation.

Section 620.2005 – Missouri Works Program

Oversight notes this section modifies the definition of “Qualified Company”.

Currently, the definition of “Qualified Company” states the term shall not include: store front consumer-based retail trade establishments (under NAICS Sectors 44 and 45), except with respect to any company headquartered in this state with a majority of its full time employees engaged in operations not within the NAICS codes specified in this subdivision.

This section modifies the definition so that store front consumer based retail trade establishments located in a county of the third or fourth class **could** qualify as a “Qualified Company”.

Oversight notes, per the most recent Tax Credit Analysis submitted by the Missouri Department of Economic Development, the Missouri Works Program had the following activity:

| Fiscal Year | 2018 | 2019 | 2020 | 2021 (Estimate) | 2022 (Budget Year) |
|------------------------------------|---------------|---------------|---------------|----------------------------|-----------------------------------|
| Certificates Issued (#) | 31 | 50 | 54 | 61 | 80 |
| Projects/Participants | 141 | 101 | 116 | 119 | 119 |
| Amount Authorized | \$185,732,973 | \$105,043,020 | \$153,823,786 | \$148,199,926 | \$148,199,926 |
| Amount Issued | \$45,830,250 | \$82,326,472 | \$134,393,278 | \$188,341,232 | \$181,272,564 |
| Amount Redeemed | \$56,398,909 | \$64,786,980 | \$113,472,125 | \$169,507,109 | \$163,145,308 |

Oversight notes the three (3) year average amount authorized totals \$148,199,926. The three (3) year average amount issued totals \$87,516,667.

Oversight notes the three (3) year average number of certificates issued totals 45. The three (3) year average number of projects/participants totals 119.

Oversight notes, when dividing the three (3) year average amount authorized **or** issued by the three (3) year average number of certificates **or** projects/participants, the average amount authorized **or** issued **per taxpayer** is in excess of \$250,000.

Therefore, for purposes of this fiscal note, Oversight will report a revenue reduction equal to \$0 (participation in MO Works Program does not increase as a result of the change) to a negative “Unknown” as the result of an increase in participation of the MO Works Program as a result of the changes made to the definition of Qualified Company.

Oversight assumes this section will become effective August 28, 2021 (Fiscal Year 2022). Therefore, Oversight will report the aforementioned impact as a result of this section beginning in Fiscal Year 2022.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section would allow storefront retailers to be considered qualified companies in counties of the third and fourth class. In the event that this change leads to higher utilization of MO Works tax credits, this section could reduce Total State Revenues and General Revenue by an unknown amount beginning in Fiscal Year 2022.

Officials from the **Missouri Department of Revenue (DOR)** state the Missouri Works Program is designed to encourage economic growth in the state by encouraging businesses to locate in Missouri. The Missouri Works Program provides tax credits and withholding allowances to companies that qualify. Currently, gambling establishments and retail trade establishments are prohibited from qualifying for Missouri Works benefits. This section would allow retail trade establishments located in counties of the third or fourth classification to qualify for benefits.

This may impact the number of projects that qualify for this program in the future and the Department of Economic Development may be better able to estimate any future impact. This provision is not expected to fiscally impact DOR.

Section 1 – Local Notice

Oversight notes this section states, no later than the first week of November 2021, any county or municipality of this state that has enacted a use tax shall provide notice in the newspaper with the greatest circulation in such county or municipality and on any county or municipality website, that certain purchases from out-of-state vendors will become subject to an expansion of the use tax as provided by state law. The notices shall include the rates of the use tax in the county or municipality and shall include general information on repealing a local use tax.

Officials from the **Office of Administration – Budget & Planning Division** state **Section 1** states that municipalities with an existing use tax must provide notice that certain out-of-state purchases will become subject to taxation. The notice must also include information on how to repeal the use tax.

Officials from the **Missouri Department of Revenue** state this provision requires that all local political subdivisions that have a local use tax enacted prior to November 2021, will be required to provide written notice in the newspaper with the greatest circulation in their area of the use tax rate. This notice is to let the taxpayers know of the use tax being put on the out-of-state online items.

Section B – Enactment

Oversight notes Section(s) 144.177, 144.608, 144.637, 144.638, and 144.752, and the repeal and reenactment of Section(s) 143.011, 144.011, 144.014, 144.020, 144.049, 144.054, 144.140, 144.526, and 144.605, and the repeal of Section(s) 144.710, 144.1000 – 144.1015 shall become effective January 1, 2023.

Section C – Emergency Clause

Oversight notes the repeal and reenactment of Section(s) 143.121 and 143.171 shall be in full force and effect upon its passage and approval.

Section D – Enactment

Oversight notes Section 67.2677 shall become effective August 28, 2023.

Legislation as a Whole –

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 SOS for administrative rules is less than \$5,000. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes 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 SOS can sustain with SOS's core budget. Therefore, SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposed legislation. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process.

Officials from the **Joint Committee on Administrative Rules** assume this proposed legislation will not cause a fiscal impact beyond its current appropriation.

Oversight assumes JCAR will be able to administer any rules from this proposed legislation with existing resources.

Officials from the **Missouri Department of Commerce and Insurance**, the **Missouri Department of Public Safety – State Emergency Management Agency**, the **State Auditor's Office**, the **City of Claycomo**, the **Platte County Election Authority**, the **St. Louis County Election Authority**, the **Pettis County Ambulance District**, the **Metropolitan St. Louis Sewer District**, the **South River Drainage District**, and the **Wayne County Public Water Supply #2** do not anticipate this proposed legislation will cause a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, Oversight will not report a fiscal impact for these organizations.

L.R. No. 0752S.13T

Bill No. Truly Agreed To and Finally Passed CCS for HCS for SS for SCS for SB Nos. 153 & 97

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June 24, 2021

| <u>FISCAL IMPACT – State Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
|--|--------------------------------|--|---|---|
| GENERAL REVENUE FUND | | | | |
| <u>Revenue Reduction – Section(s) 143.011 & 143.177 – Changes To Individual Income Tax Law (Rate Reductions and EITC) – p. 25-30 & 36-38</u> | \$0 | \$0 | (\$43,603,235) | (\$349,750,111) |
| <u>Revenue Loss/Foregone Revenue – Section(s) 143.121 & 143.171 – Non-Inclusion Of Economic Stimulus Payments When Determining Missouri Individual Income Tax – p. 30-35</u> | Could exceed (\$11,723,401) | \$0 | \$0 | \$0 |
| <u>Revenue Gain – Section(s) 144.605 & 144.752 – Online Use Tax – p. 43-50</u> | \$0 | Less than \$39,668,060 to \$60,603,981 | Less than \$80,768,943 to \$123,396,997 | Less than \$92,274,147 to \$140,974,391 |

| | | | | |
|--|---|--|--|---|
| <u>Cost – DOR –</u> Section(s) 32.310, 144.605, 144.752, 144.608, 144.637, & 144.638 – p. 5-7 & 48-53 | | | | |
| Personnel Services | (\$267,483) | (\$1,946,808) | (\$1,966,276) | (\$2,066,576) |
| Fringe Benefits | (\$199,498) | (\$1,170,468) | (\$1,177,038) | (\$1,210,889) |
| Equipment & Expense | (\$332,790) | (\$7,466,147) | (\$22,143) | (\$25,052) |
| Total Cost | (\$799,771) | (\$10,583,423) | (\$3,165,457) | (\$3,302,517) |
| FTE Change - DOR | 8 FTE | 43 FTE | 43 FTE | 43 FTE |
| <u>Revenue Reduction –</u> Section 620.2005 – Change In Definition of “Qualified Company” – p. 56-57 | \$0 to (Unknown) | \$0 to (Unknown) | \$0 to (Unknown) | \$0 to (Unknown) |
| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | <u>Could exceed (\$12,523,172)</u> | <u>Less than \$29,084,637 to \$50,020,558</u> | <u>Less than \$34,000,251 to \$76,628,305</u> | <u>Could exceed (\$260,778,481) to (\$212,078,237)</u> |
| BLIND PENSION FUND (0621) | | | | |
| <u>Revenue Reduction –</u> Section 137.115 – Qualifying Aircraft Assessed At A Lower Rate – p. 23-25 | \$0 | \$0 | (Unknown, less than \$400) | (Unknown, less than \$400) |
| ESTIMATED NET EFFECT ON BLIND PENSION FUND | \$0 | \$0 | (Unknown) | (Unknown) |

| | | | | |
|--|------------|--|--|--|
| SCHOOL DISTRICT TRUST FUND (0688) | | | | |
| Revenue Gain – Section(s) 144.605 & 144.752 – Online Use Tax – p. 43-50 | \$0 | <u>Less than</u> <u>\$13,222,687 to</u> <u>\$20,201,327</u> | <u>Less than</u> <u>\$26,922,981 to</u> <u>\$41,132,333</u> | <u>Less than</u> <u>\$30,758,049 to</u> <u>\$46,991,464</u> |
| ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND | \$0 | <u>Less than</u> <u>\$13,222,687 to</u> <u>\$20,201,327</u> | <u>Less than</u> <u>\$26,922,981 to</u> <u>\$41,132,333</u> | <u>Less than</u> <u>\$30,758,049 to</u> <u>\$46,991,464</u> |
| CONSERVATION COMMISSION FUND (0609) | | | | |
| Revenue Gain – Section(s) 144.605 & 144.752 – Online Use Tax – p. 43-50 | \$0 | <u>Less than</u> <u>\$1,652,836 to</u> <u>\$2,525,166</u> | <u>Less than</u> <u>\$3,365,373 to</u> <u>\$5,141,542</u> | <u>Less than</u> <u>\$3,844,757 to</u> <u>\$5,873,933</u> |
| ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND | \$0 | <u>Less than</u> <u>\$1,652,836 to</u> <u>\$2,525,166</u> | <u>Less than</u> <u>\$3,365,373 to</u> <u>\$5,141,542</u> | <u>Less than</u> <u>\$3,844,757 to</u> <u>\$5,873,933</u> |
| PARKS AND SOILS STATE SALES TAX FUND(S) (0613 & 0614) | | | | |
| Revenue Gain – Section(s) 144.605 & 144.752 – Online Use Tax – p. 43-50 | \$0 | <u>Less than</u> <u>\$1,322,269 to</u> <u>\$2,020,133</u> | <u>Less than</u> <u>\$2,692,298 to</u> <u>\$4,113,233</u> | <u>Less than</u> <u>\$3,075,805 to</u> <u>\$4,699,146</u> |
| ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUND(S) | \$0 | <u>Less than</u> <u>\$1,322,269 to</u> <u>\$2,020,133</u> | <u>Less than</u> <u>\$2,692,298 to</u> <u>\$4,113,233</u> | <u>Less than</u> <u>\$3,075,805 to</u> <u>\$4,699,146</u> |

| <u>FISCAL IMPACT – Local Government</u> | FY 2022 (10 Mo.) | FY 2023 | FY 2024 | Fully Implemented (FY 2029) |
|--|---------------------|---------------------|-------------------------------|-----------------------------------|
| LOCAL POLITICAL SUBDIVISIONS | | | | |
| <u>Revenue Reduction – Section(s) 67.2677 & 67.2689 – Modification Of Definition Of Gross Receipts And Reduced Percentage Used To Calculate Video Service Provider Fee(s) – p. 11-14</u> | \$0 | \$0 | Could exceed (\$2,203,376) | Could exceed (\$11,016,881) |
| <u>Revenue Reduction – Section 99.821 – Reduced Deposits Into Special Allocation Fund – p. 18-19</u> | (Unknown) | (Unknown) | (Unknown) | (Unknown) |
| <u>Revenue Gain – Section 99.821 – Deposits Not Deposited Into Special Allocation Fund (10%) Diverted To Strategic Infrastructure for Economic Growth Fund – p. 18-19</u> | Unknown | Unknown | Unknown | Unknown |
| <u>Revenue Reduction – Section 99.848 - Some Local Political Subdivisions/ Districts May See Smaller Distributions – p. 20</u> | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |

| | | | | |
|---|-------------------|--|--|--|
| <u>Revenue Gain</u> – Section 99.848 - Some Local Political Subdivisions/ Districts May See Larger Distributions – p. 20 | \$0 or Unknown | \$0 or Unknown | \$0 or Unknown | \$0 or Unknown |
| <u>Revenue Reduction</u> – Section 137.115 – Qualifying Aircraft Assessed At A Lower Rate – p. 23-25 | \$0 | \$0 | (Unknown, less than \$90,000) | (Unknown, less than \$90,000) |
| <u>Revenue Reduction</u> – Section 144.049 – Back-To-School Sales Tax Holiday Sales Tax Exemption – p. 38 | \$0 | \$0 | (\$465,677) | (\$465,677) |
| <u>Revenue Reduction</u> – Section 144.054 – Manufacturing Sales Tax Exemption – p. 39 | \$0 | (\$16,793,662) | (\$33,587,232) | (\$33,587,232) |
| <u>Revenue Reduction</u> – Section 144.526 – Show-Me Green Sales Tax Holiday – p. 42-43 | \$0 | (\$27,983) | (\$27,983) | (\$27,983) |
| <u>Revenue Gain</u> – Section(s) 144.605 & 144.752 – Online Use Tax – p. 43-50 | \$0 | Less than \$20,528,688 to \$31,363,272 | Less than \$41,798,878 to \$63,859,396 | Less than \$47,752,956 to \$72,955,904 |

| | | | | |
|---|---------------------|---|---|---|
| <u>Revenue Increase</u> – Section 144.759 – Local Use Tax Distribution – Potential For Some Local Political Sub. In St. Louis County To Recognize Additional Use Tax Revenue – p. 54 | \$0 or Unknown | \$0 or Unknown | \$0 or Unknown | \$0 or Unknown |
| <u>Revenue Reduction</u> – Section 144.759 – Local Use Tax Distribution – Potential For Some Local Political Sub. In St. Louis County To Recognize Reduced Use Tax Revenue – p. 54 | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) | \$0 or (Unknown) |
| ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS | \$0 | <u>Less than \$3,707,043 to \$14,541,627</u> | <u>Less than \$5,424,610 to \$27,485,128</u> | <u>Less than \$2,565,183 to \$27,768,131</u> |

FISCAL IMPACT – Small Business

This proposed legislation could impact any small business operating as a video service provider as such small business would be required to adjust the amount such small business collects as a video franchise fee for several years.

This proposed legislation could impact any small business that currently qualifies for the manufacturing sales tax exemption under Section 144.054, as such small business would no longer qualify

The collection of use tax from out-of-state/online retailers and marketplace facilitators could even the playing field for local in-state small businesses; therefore, in-state small businesses could experience revenue growth. Out-of-state/online businesses and marketplace facilitators would be required to collect and remit the applicable tax(es) to the Missouri Department of Revenue; increasing their administrative costs and decreasing their net revenues.

FISCAL DESCRIPTION

USE TAX MAPPING

Current law requires the Department of Revenue to create and maintain a mapping feature on its website that displays various sales tax information. This act requires such mapping feature to include use tax information. Political subdivisions collecting a use tax shall send such data to the Department of Revenue by January 1, 2022, and the Department shall implement the mapping feature using the use tax data by July 1, 2022.

By July 1, 2022, the Department shall update the mapping feature to include the total sales tax rate for combined rates of overlapping sales taxes levied and the total use tax rate for combined rates of overlapping use taxes levied.

If the boundaries of a political subdivision in which a sales or use tax has been imposed shall thereafter be changed or altered, the political subdivision shall forward such changes to the Department, as described in the act. (Section 32.310)

VIDEO SERVICE PROVIDER FEES

This act modifies provisions relating to communications services offered in political subdivisions.

The act modifies the definition of "gross revenues" for provisions of law relating to video service providers.

This act prohibits the state and political subdivisions from imposing a new tax, license, or fee upon the provision of satellite or streaming video services.

Under the act, a franchise entity may collect a video service provider fee equal to not more than 5% of the gross revenues of a video service provider providing service in the geographic area of such franchise entity. The fee shall be phased out as follows:

- Beginning August 28, 2023, 4.5% of gross revenues;
- Beginning August 28, 2024, 4% of gross revenues;
- Beginning August 28, 2025, 3.5% of gross revenues;
- Beginning August 28, 2026, 3% of gross revenues; and
- Beginning August 28, 2027, and continuing thereafter, 2.5% of gross revenues.

Currently, video service providers may identify and collect the amount of the video service provider fee as a separate line item on subscriber bills. Under this act, the fee shall be identified and collected as a separate line item.

The act also creates the Task Force on the Future of Right-of-Way Management and Taxation consisting of 16 members as set forth in the act. The purpose of the Task Force is to study best methods for right-of-way management, taxation of video services, and the future revenue needs of municipalities and political subdivisions as such revenue relates to video services.

The Task Force shall compile a report of its activities for submission to the General Assembly. The report shall be submitted no later than December 31, 2023, and shall include any recommendations which the Task Force may have for legislative action. The Task Force shall expire on December 31, 2023. (Sections 67.2677 to 67.2720)

COMMUNITY IMPROVEMENT DISTRICTS

Current law requires a petition for the creation of a community improvement district (CID) to include a five year plan describing the improvements to be made in the district. This act requires such plan to include the anticipated sources of funds and the term of such sources used to pay the costs of such improvements. This act also limits the duration of a CID to twenty-seven years for CIDs formed after August 28, 2021.

Upon the creation of a district, this act requires the municipal clerk of the municipality to report in writing to the State Auditor in addition to the Missouri Department of Economic Development. (Section 67.1421)

For CIDs established after August 28, 2021, in which there are no registered voters, this act requires at least one director to be a person who resides within the municipality, is registered to vote, has no financial interest in any real property or business operating within the CID, and to not be a relative within the second degree of consanguinity to an owner of real property or a business operating within the CID. (Section 67.1451)

This act requires all construction contracts entered into after August 28, 2021, and that are in excess of \$5,000 shall be competitively bid and shall be awarded to the lowest and best bidder. (Section 67.1461)

In its annual report filed with the Department of Economic Development, this act requires a CID to include the dates the district adopted its annual budget, submitted its proposed annual budget to the municipality, and submitted its annual report to the municipal clerk. (Section 67.1471)

REDEVELOPMENT DISTRICTS

This act modifies the definition of "blighted area" for the purposes of several redevelopment districts, including Community Improvement Districts, the Housing Authorities Law, Land Clearance for Redevelopment, Downtown and Rural Economic Stimulus Act, the Downtown Revitalization Preservation Program, the Planned Industrial Expansion Law, Enhanced Enterprise Zones, Urban Agriculture Zones, and the Urban Redevelopment Corporations Law. (Sections 67.1401 to 99.320, 99.918 to 135.950, 262.900 to 353.020)

TAX INCREMENT FINANCING

This act modifies the definitions of "blighted area" and "conservation area", and creates new definitions for "port infrastructure projects", "retail area", and "retail infrastructure projects". (Section 99.805)

This act modifies local tax increment financing projects by providing that a study shall be conducted by a land use planner, urban planner, licensed architect, licensed commercial real estate appraiser, or licensed attorney, which details how the area meets the definition of an area eligible to receive tax increment financing.

This act also provides that retail areas, as defined in the act, shall not receive tax increment financing unless such financing is exclusively utilized to fund retail infrastructure projects, as defined in the act, or unless such area is a blighted or conservation area. (Section 99.810)

Current law requires cities, towns, and villages located in St. Louis County, St. Charles County, or Jefferson County to establish a twelve member commission that shall include six members appointed by the county executive or presiding commissioner prior to the adoption of any resolution or ordinance approving tax increment financing projects. This act adds Cass County to such list of counties. (Section 99.820)

For tax increment financing projects approved or amended after December 31, 2021, the City of St. Louis may provide for the deposit of up to 10% of the tax increment financing revenues generated by the project into a Strategic Infrastructure for Economic Growth Fund to be established by the city. Moneys deposited in such fund may be expended by the city for the purpose of funding capital investments in public infrastructure that is located in a census tract that is defined as a low-income community or is eligible to be designated as a Qualified Opportunity Zone under federal law. (Section 99.821)

This act prohibits new projects from being authorized in any Greenfield area. (Section 99.843)

Beginning January 1, 2022, this act also prohibits new projects from being authorized in an area designated as a flood plain by the Federal Emergency Management Agency unless such projects are located in 1) Jackson, Platte, Clay, or Cole counties; 2) the cities of Springfield, St. Joseph, Hannibal, or Jefferson City, 3) in a port district, provided such financing is utilized for port infrastructure projects; or 4) in a levee or drainage district created prior to August 28, 2021. Projects in flood plains shall not be authorized in St. Charles County unless the redevelopment area actually abuts a river or major waterway, as described in the act. (Section 99.847)

Current law allows districts and counties imposing a property tax for the purposes of providing emergency services to be entitled to reimbursement from the special allocation fund of a portion of the district's or county's tax increment. For projects approved after August 28, 2021, this act modifies such provision to allow reimbursement to ambulance districts, fire protection districts, and governing bodies operating a 911 center providing dispatch services and which impose economic activity taxes for such purposes. (Section 99.848)

TAXATION OF AIRCRAFT

Current law requires aircraft which are at least twenty-five years, used solely for noncommercial purposes, and operated less than fifty hours per year to be assessed at five percent of true value. This act changes the operating hours requirement to two hundred hours. (Section 137.115)

INDIVIDUAL INCOME TAX

Current law provides for a reduction in the top rate of income tax of 0.5% phased-in over a period of years in 0.1% increments, with each cut becoming effective if net general revenue collections meet a certain trigger. This act adds two additional 0.1% reductions to such provision. Additionally, beginning with the 2024 calendar year, the top rate of tax shall be reduced by 0.1%. (Section 143.011)

Current law allows a taxpayer to deduct from his or her Missouri adjusted gross income a portion of his or her federal income taxes paid, exempting federal income tax credits received for the 2020 tax year under the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act when determining the amount of federal income tax liability allowable as a deduction. This act also exempts federal income tax credits received for the 2020 tax year under the supplemental CARES Act, as well as any other federal COVID-19-related income tax credits. (Section 143.171)

Current law also requires taxpayers who itemize deductions to include any federal income tax refund amounts in his or her Missouri adjusted gross income if such taxpayer previously claimed a deduction for federal income tax liability on his or her Missouri income tax return. This act provides that any amount of any federal income tax refund attributable to COVID-19-related tax credits in the supplemental CARES ACT, as well as any other federal COVID-19-related income tax credits, shall not be included in the taxpayer's Missouri adjusted gross income. (Section 143.121)

This provision contains an emergency clause.

This act also establishes the Missouri Working Family Tax Credit Act. Beginning with the 2023 calendar year, this act creates a tax credit to be applied to a taxpayer's Missouri income tax liability after all reductions for other credits for which the taxpayer is eligible have been applied. The tax credit shall not exceed the amount of the taxpayer's tax liability, and shall not be refundable. The amount of such tax credit shall be a percentage of the amount of a taxpayer's federal earned income tax credit as such credit existed as of January 1, 2021. The initial percentage shall be 10% and may be increased to 20% of the amount of a taxpayer's federal earned income tax credit. The initial percentage claimed and any increase in the percentage claimed shall only occur if the amount of net general revenue collected in the previous fiscal year exceeds the highest amount of net general revenue collected in any of the three fiscal years prior to such fiscal year by at least \$150 million.

The Department of Revenue shall determine whether a taxpayer who did not apply for the tax credit established by this act is eligible and shall notify such taxpayer of his or her potential eligibility.

The Department shall prepare an annual report regarding the tax credit established by this act containing certain information as described in the act. (Section 143.177)

USE TAX ECONOMIC NEXUS

This act modifies the definition of "engaging in business activities within this state" to include vendors that had cumulative gross receipts of at least \$100,000 from the sale of tangible personal property for the purpose of storage, use, or consumption in this state in the previous twelve-month period, as described in the act. Vendors meeting such criteria shall be required to collect and remit the use tax as provided under current law. (Section 144.605)

MARKETPLACE FACILITATORS

Beginning January 1, 2023, marketplace facilitators, as defined in the act, that engage in business activities within the state shall register with the Department to collect and remit use tax on sales delivered into the state through the marketplace facilitator's marketplace by or on behalf of a marketplace seller, as defined in the act. Such retail sales shall include those made directly by the marketplace facilitator as well as those made by marketplace sellers through the marketplace facilitator's marketplace.

Marketplace facilitators shall report and remit use tax collected under this act as determined by the Department. Marketplace facilitators properly collecting and remitting use tax in a timely manner shall be eligible for any discount provided for under current law.

Marketplace facilitators shall provide purchasers with a statement or invoice showing that the use tax was collected and shall be remitted on the purchaser's behalf.

No class action shall be brought against a marketplace facilitator in any court in this state on behalf of purchasers arising from or in any way related to an overpayment of sales or use tax collected on retail sales facilitated by a marketplace facilitator, regardless of whether that claim is characterized as a tax refund claim. (Section 144.752)

SALES TAX ADMINISTRATION

This act authorizes the Department of Revenue to consult, contract, and work jointly with the Streamlined Sales and Use Tax Agreement's Governing Board to allow sellers to use the Governing Board's certified service providers and central registration system services, or to consult, contract, and work with certified service providers independently. The Department may determine the method and amount of compensation to be provided to certified service providers. The act also authorizes the Department to independently take such actions as may be reasonably necessary to secure the payment of and account for the tax collected and remitted by retailers and vendors under the act.

This provision shall expire on January 1, 2028, unless reauthorized by the General Assembly. (Section 144.608)

The school and Show Me Green sales tax holidays are modified by repealing the ability for political subdivisions to opt out of the sales tax holidays, and by defining how the sales tax exemption applies to the purchase or return of certain items. (Sections 144.049 and 144.526)

The Director shall provide and maintain downloadable electronic databases at no cost to the user of the databases for taxing jurisdiction boundary changes, tax rates, and a taxability matrix detailing taxable property and services. Sellers and certified service providers (CSP) will be relieved from liability if they fail to properly collect tax based upon information provided by the Department. Certified service providers, sellers, and marketplace facilitators may utilize proprietary data, provided the Director certifies that such data meets the standards provided for under the act.

This act relieves a purchaser from any penalties for failure to pay the proper amount of sales tax if the error was a result of erroneous information provided by the Director of Revenue. (Sections 144.637 and 144.638)

Monetary allowances from taxes collected shall be provided to certain sellers and certified service providers for collecting and remitting state and local taxes, as described in the act. (Section 144.140)

Current law provides statutory sales tax collection thresholds to determine the frequency at which sellers shall file and remit sales taxes collected, with such periods being quarter-monthly, monthly, quarterly, and annually. Current law also allows the Department of Revenue to increase, but not decrease, such thresholds through rule. This act modifies the statutory thresholds for the monthly, quarterly, and annual filing periods.

For monthly filing, the threshold is changed from at least \$250 in the first or second month of a calendar quarter to at least \$500 per calendar month for the prior year.

For quarterly filing, the threshold is changed from at least \$45 in a calendar quarter, but not subject to monthly filing to less than \$500 per calendar month, but at least \$200 in a calendar quarter.

For annual filing, the threshold is changed from less than \$45 per calendar quarter to less than \$200 per calendar quarter. (Section 144.080)

LOCAL USE TAXES

This act modifies ballot language required for the submission of a local use tax to voters by repealing ballot language specific to St. Louis County and its municipalities and the City of St. Louis, and making requiring the ballot language in all municipalities identical.

This act prohibits a local use tax from being described as a new tax, described as not being a new tax, and being advertised or promoted in a manner in violation of current law. (Section 144.757)

This act provides that the portion of the local use tax imposed by St. Louis County shall be distributed to the cities, towns, villages, and unincorporated areas of the county on the ratio of the population that each such city, town, village, and unincorporated area bears to the total population of the county. (Section 144.759)

No later than the first week of November 2021, any county or municipality that has enacted a local use tax shall provide notice in a newspaper or on the county's or municipality's website that certain purchases from out-of-state vendors will become subject to the provisions of the act, as described in the act. (Section 1)

MISSOURI WORKS

Current law excludes store front consumer-based retail trade establishments from the definition of "qualified company" for the purposes of receiving benefits under the Missouri Works program. This act allows such establishments located in a third or fourth class county to be included in such definition. (Section 620.2005)

EFFECTIVE DATE

The provisions of this act relating to sales tax administration, use taxes, and income taxes shall become effective January 1, 2023. (Section B)

Provisions of the act relating to the deduction of federal income taxes paid contain an emergency clause. (Section C)

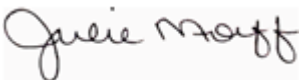
Provisions of the act modifying definitions relating to video service provider fees shall become effective August 28, 2023. (Section D)

The remaining provisions shall become effective August 28, 2021.

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 & Planning Division
Missouri Department of Commerce and Insurance
Missouri Department of Natural Resources
Missouri Department of Revenue
Missouri Department of Public Safety – State Emergency Management Agency
Missouri Department of Conservation
Missouri Secretary of State’s Office
Missouri State Auditor’s Office
Joint Committee on Administrative Rules
Missouri State Tax Commission
City of Claycomo
City of Kansas City
Platte County Election Authority
St. Louis County Election Authority
Pettis County Ambulance District
Metropolitan St. Louis Sewer District
South River Drainage District
Wayne County Public Water Supply District #2



Julie Morff
Director
June 24, 2021



Ross Strobe
Assistant Director
June 24, 2021