

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3680-04  
Bill No.: Perfected SCS for SB 894, 975 & 927  
Subject: Taxation and Revenue - Sales and Use; Business and Commerce  
Type: Original  
Date: April 4, 2002

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
General Revenue	\$0 or (\$5,065,214)	\$0 or (\$4,227,505)	\$0
School District Trust	\$0 or (\$1,075,205)	\$0 or (\$1,371,616)	\$0
Conservation	\$0 or (\$134,401)	\$0 or (\$171,452)	\$0
Parks and Soil	\$0 or (\$107,521)	\$0 or (\$137,162)	\$0
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>\$0 or (\$6,382,341)</b>	<b>\$0 or (\$5,907,735)</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0 to (\$2,057,425)</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

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

BAP estimates the annual consumer spending in Missouri on clothing and shoes based on national estimates from the U.S. Department of Commerce - Bureau of Economic Analysis. BAP staff assumes Missouri represents 1.8% of U.S. totals. BAP staff estimates taxable sales for FY2003 to be \$6,802,000,000 and taxable sales for FY 2004 to be \$7,197,000,000.

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

BAP has estimated the level of Missouri consumer spending on “Stationary/School” supplies for FY03 at \$241,000,000 and for FY04 at \$266,000,000. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri’s share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 1999 and 2000.

Also, BAP has estimated the level of Missouri consumer spending on “Computer, software, et al” supplies for FY03 at \$806 million and for FY04 at \$881 million. The estimate is based on national data from the U.S. Department of Commerce – Bureau of Economic Analysis. BAP assumes that Missouri represents 1.8% of the national total which is Missouri’s share of U.S. personal income. BAP assumes growth for 2001 and beyond, is the average of the increase for 1999 and 2000.

Officials of the **Department of Revenue (DOR)** state this legislation establishes a sales tax holiday for clothing and school supplies for nine days in August. The state will reimburse the political subdivision for any lost revenues due to the exemption.

DOR assumes they are responsible for tracking and distributing the lost revenue portion back to the locals and subsequent impact associated with the local opt out provision. In order to track the lost revenue by locality the clothing and school supplies sales will need to be separately stated on the sales tax return with a new location (clothing/school supplies) on the return (similar to food). The sales tax report for August will affect all registrants (annual, quarterly and monthly). DOR assumes this will most likely result in some single and two location voucher filers to report on a long form for at least one month/quarter. DOR will need one Tax Policy Technician (TPT) I for every additional 34,000 errors generated, one Clerk II in pre-edit for every 184,000 returns

ASSUMPTION (continued)

impacted and one Data Entry Operator 1 for every 170,000 returns impacted.

DOR will also need to send notification letters and a long sales tax form to approximately 100,000 sales tax accounts in August. DOR estimates the postage cost to notify the businesses will be approximately \$26,800.

DOR assumes the MITS system will need to be modified to recognize the new item tax. The figures reported on the new item tax will need to be calculated and broken down into tax types in order to reimburse the lost revenue to the political subdivisions. The changes to MITS will require modifications to several tables, and distribution programs and registration subsystem. The above modifications will require 2,768 hours of programming at a total cost of \$92,340. The State Data Center cost to implement the proposed legislation will be \$18,013. The DOR did not provide an estimate of revenue loss associated with this proposal.

**Oversight**, for purposes of this fiscal note, has reflected the loss in sales tax revenue based upon the estimate provided by BAP and the actual impact similar legislation had on other states. The revenue estimate was based on 6/365 of the fiscal year taxable sales, resulting in a loss of \$8.3 million in state funds due to the sales tax holiday for FY03, and \$7.8 million in FY04. No adjustment was made for the \$100 cap, \$50 cap and \$2,000 cap. **Also, no adjustment was made for any incentive effect this portion of the proposal might have on spending habits. The actual loss to state funds from this sales tax holiday could be significantly higher than estimated.** Oversight assumes the Department of Revenue will enforce the provisions of the bill through post-audit in the field. If compliance is not monitored, the revenue impact could increase.

Oversight assumes the mailing costs would be incurred in July before the August sales tax holiday. In addition, Oversight has included the programming costs and FTE requested since this legislation includes a reimbursement to local government for any local sales tax revenue lost for FY03 and it is assumed DOR will be required to track the sales tax revenue lost.

For a similar prior proposal, Oversight contacted three states that enacted similar legislation, the **State of Texas**, the **State of Florida** and the **State of New York**. Texas had a Sales Tax Holiday on clothing and footwear during a three day period in August, 1999. Florida had a nine day sales tax holiday period on clothing and footwear in August, 1998, and New York has had several such "holidays" in 1997, 1998 and 1999. Oversight assumes that similar impacts would occur in Missouri and have applied their taxable sales during the holidays to the Gross State Product in Chained (1992) Dollars, by industry from the U.S. Census Bureau, *the Official Statistics*, Statistical Abstract of the United States: 2000 to determine what Missouri's taxable sales in a similar period might be. The comparison reveals that by using the Office of

ASSUMPTION (continued)

Administration, Budget and Planning's estimated sales of clothing and footwear in Missouri for a given fiscal year, a reasonable estimate could be made to the actual impact a sales tax holiday would have. Oversight assumes that the same impact will occur whether the exemption applied to clothing or shoes under \$500 as it would for clothing under \$100. Oversight also assumes that the results could be applied over a nine day exemption as it would for a seven day exemption, as it would for a thirty-one day exemption.

Senate Amendment 1 would make the sales tax holiday dependent upon state employees getting a minimum raise of at least \$900 per employee. The budget (after line-item vetoes) adopted for FY 2002 authorized 62,835 FTE.  $62,835 \times \$900 = \$56,551,500$ . Since this would be a budget decision items or items, Oversight will not show this cost in the fiscal impact. Since the sales tax holiday would be dependent upon the appropriation and payment of the raises, Oversight will show the effects of the sales tax holiday as \$0 or (the projected loss of revenue). Oversight assumes that the sales tax holiday scheduled for August, 2002, would not happen unless the General Assembly appropriates monies for raises in FY 2003 and the Governor does not line-item veto those raises.

**This legislation might decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Transfer to Local Government</u>			
Reimbursement for loss in local sales tax revenue	\$0 or (\$1,612,808)	\$0	\$0
<u>Cost - Dept. of Revenue (DOR)</u>			
Personnel (3 FTE)	(\$50,600)	(\$62,238)	\$0
Fringe Benefits	(\$18,221)	(\$22,412)	\$0
Expense and Equipment	(\$20,816)	(\$1,206)	\$0
Programming	(\$110,353)	\$0	\$0
Postage	<u>(\$26,800)</u>	<u>(\$26,800)</u>	<u>\$0</u>
Total costs - DOR	\$0 or (\$226,790)	\$0 or (\$112,656)	\$0
<u>Loss to General Revenue Fund</u>			
Sales tax holiday	\$0 or <u>(\$3,225,616)</u>	\$0 or <u>(\$4,114,849)</u>	<u>\$0</u>

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>\$0 or</u> <u>(\$5,065,214)</u></b>	<b><u>\$0 or</u> <u>(\$4,227,505)</u></b>	<b><u>\$0</u></b>
<u>Loss to School District Trust Fund</u>			
Sales tax holiday	\$0 or (\$1,075,205)	\$0 or (\$1,371,616)	\$0
<u>Loss to Conservation Fund</u>			
Sales tax holiday	\$0 or (\$134,401)	\$0 or (\$171,452)	\$0
<u>Loss to Parks and Soil Funds</u>			
Sales tax holiday	\$0 or (\$107,521)	\$0 or (\$137,162)	\$0
<b>ESTIMATED NET EFFECT TO ALL STATE FUNDS</b>	<b><u>\$0 or</u> <u>(\$6,382,341)</u></b>	<b><u>\$0 or</u> <u>(\$5,907,735)</u></b>	<b><u>\$0</u></b>
<u>FISCAL IMPACT - Local Government</u>	FY 2003	FY 2004	FY 2005
<u>Income from General Revenue</u>			
Reimbursement	\$0 or \$1,612,808	\$0	\$0
<u>Loss to Cities</u>			
Sales tax holiday	\$0 or (\$967,685)	\$0 to (\$1,234,455)	\$0
<u>Loss to Counties</u>			
Sales tax holiday	\$0 or (\$645,123)	\$0 to (\$822,970)	\$0
<b>ESTIMATED NET EFFECT TO LOCAL GOVERNMENT</b>	<b><u>\$0</u></b>	<b><u>\$0 to</u> <u>(\$2,057,425)</u></b>	<b><u>\$0</u></b>
<u>FISCAL IMPACT - Small Business</u>			

This legislation could affect small businesses that collect sales tax on clothing. Sales tax paperwork will be increased for the month that the "holiday" sales tax days are exempt.

## DESCRIPTION

This act creates a sales tax holiday for articles of clothing valued at one hundred dollars or less and school supplies valued at fifty dollars or less for six days in August. It also creates a holiday for sales of computers and related equipment valued at two thousand dollars or less. The holiday applies to both state and local sales taxes. The State will reimburse local jurisdictions for revenue lost as a result of this act for FY03.

The act permits local political subdivisions to opt-out of the sales tax holiday in 2003, its second year.

The act establishes a "Sales Tax Holiday Joint Legislative Committee" to study and review the effects of the holiday and report to the general assembly on or before January 8, 2004.

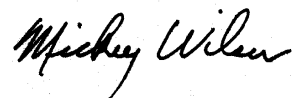
This act provides that there would be no sales tax holidays unless a pay adjustment for all state employees in the amount of \$900 minimum per employee is appropriated and paid.

The act has an emergency clause enacting it on July 1, 2002, and a sunset of July 1, 2004.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

## SOURCES OF INFORMATION

Department of Revenue  
Office of Administration  
Division of Budget and Planning  
Missouri Senate Appropriations Committee Annual Fiscal Report: Fiscal Year 2002  
States of Texas, Florida and New York



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Acting Director  
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