COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5974H.06C
Bill No.: HCS for SS for SCS for SB Nos. 3 & 5
Subject: Taxation and Revenue - General; Taxation and Revenue - Income
Type: Original
Date: September 28, 2022

Bill Summary: This proposal modifies provisions relating to taxation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2034)
General Revenue	($142,134,038-$149,797,373)	($535,522,237 - $550,384,288)	($748,223,931 - $763,085,982)	Could exceed ($1,105,721,159-$1,120,583,210)
Total Estimated Net Effect on General Revenue	**($142,134,038-$149,797,373)**	**($535,522,237 - $550,384,288)**	**($748,223,931 - $763,085,982)**	**Could exceed ($1,105,721,159-$1,120,583,210)**

*Oversight notes currently the state individual income tax rate (5.3% in CY 2022) is to be reduced in 0.10% annual increments (if certain triggers are met) until it reaches 4.8%. This proposal would change the tax rate to 4.95% starting January 1, 2023. This proposal also allows for an additional 0.15% GR-growth-dependent reduction in CY 2024 to 4.8%. Additionally, this proposal allows for an additional three 0.1% GR-growth-dependent reductions that could occur as early as CY 2025 (assuming the GR dependent trigger was met) until it reaches 4.5%. The impact for FY 2023 is smaller because it reflects a partial year. The fiscal note reflects the assumptions that the current triggers would have been met each year (would have reduced the rate to 4.8% regardless of this bill) and **that the additional triggers in the bill will be met each year**, occurring in CY 2024 – CY 2027.
** Currently, an income tax is imposed on the taxable income of corporations at a rate of 4%. This proposal allows two corporate tax collection growth-dependent reductions of the corporate income tax to be reduced in 1% increments beginning January 1, 2024. Additionally, this proposal allows for eight additional 0.25% corporate tax collection-growth-dependent reductions until the corporate tax is eliminated. **The fiscal note reflects the assumption that the triggers in the bill will be met each year**, occurring in CY 2024 – CY 2031.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2034)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2034)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2034)
Total Estimated Net Effect on FTE	**0**	**0**	**0**	**0**

☒ 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 2023	FY 2024	FY 2025	Fully Implemented (FY 2034)
Local Government	**$0**	**$0**	**($13,198,166)**	**($52,792,665)**

*Oversight notes per Section 148.720, whenever there is a reduction in the corporate tax rate there shall be a proportional decrease in the financial institutions tax. Oversight further notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2.

FISCAL ANALYSIS

ASSUMPTION

Due to time constraints, Oversight was unable to receive agency responses in a timely manner and performed limited analysis. Oversight has presented this fiscal note on the best current information that we have or on information regarding a similar bill(s). Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Oversight notes this proposal contains a Section B with an effective date for a designated section (143.011). That section would go into effect on January 1, 2023.

Oversight notes this proposal contains an emergency clause (Section C) that would make this proposal effective upon signing by the Governor for section 143.021. For the simplicity of the fiscal note, we will assume this provision would go into effect on October 1, 2022. Oversight notes the provisions in section 144.016 begin on January 1, 2023. This section will not be effected by the emergency clause.

Section 135.333 Adoption Tax Credit Refund

Oversight notes Section 135.333, specifically states that "for tax years beginning on or after January 1, 2023, any amount of tax credit that is issued and which exceeds the tax due shall be refunded to the taxpayer."

Oversight notes, currently, pursuant to Section 135.327, the tax credit program has a cumulative cap of $6,000,000 for all fiscal years beginning on or after July 1, 2021 (Fiscal Year 2022).

Oversight assumes redemptions in the tax credit program pursuant to Section(s) 135.325, 135.326, 135.327 and 135.335 could increase as a result of the reduced/lessened requirements needed to qualify for the tax credit.

As stated above, **Oversight** notes all modifications to the tax credit program pursuant to Section(s) 135.325, 135.326, 135.327, and 135.335 (except for the increase in the cumulative cap) will begin January 1, 2022. Oversight notes tax returns for Tax Year 2022 will not be filed until after January 1, 2023 (Fiscal Year 2023).

Oversight notes that DOR's information regarding the history of redemption of this tax credit under the program reflected annual redemption totals of $52,200 in 2018 to 2020 period ($19,185 in 2019, $29,404 in 2020 and $3,611 in 2021). Oversight will assume, for purpose of this fiscal note and given all above changes to the tax credit structure, the amount of loss would be <u>less than $100,000</u> annually.

<u>Sections 143.011 – 143.021 Individual Income Tax Rate</u>

In response to a previous version of this bill, officials from the **Department of Revenue (DOR)** noted in 2013 Missouri's individual income tax rate was 6% per the tax tables printed in statutes. In 2014, SB 509 then allowed for five reductions of the individual income tax rate based on certain revenue triggers (Section 143.011.2). The Department notes that currently three of those reductions have occurred (TY 2018, TY 2019 and TY 2022) and the fourth is forecasted to happen in tax year 2023, which will set the rate at 5.2%.

Additionally, in 2019, HB 2540 was added to statues that caused the individual income tax rate to be decreased by four-tenths of one percent (Section 143.011.3). Then during the 101st General Assembly regular session SB 153 & 97 was passed that would allow starting in tax year 2024 another two reductions of SB 509 (Section 143.011.4). Therefore, as of the filing of the fiscal note the individual income tax rate for tax year 2022 is 5.3% and the tax rate scheduled for tax year 2023 is 5.2%.

This proposal in Section 143.011.2 adds language that would lower the individual income tax rate to 4.95% starting January 1, 2023. This proposal would then allow for another fifteen hundreds of a percent reduction in the individual income tax rate starting January 1, 2024 if a certain trigger is met. A 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 seventy-five million dollars.

Starting after the two previous reductions, this proposal will allow three additional reductions of one-tenth of one percent reductions in the individual income tax rate. No more than one reduction can be made annually and will only occur if three triggers are met. A reduction in the rate of tax shall only occur if:

a. 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 two hundred million dollars; and

b. The amount of net general revenue collected in the previous fiscal year exceeds the amount of net general revenue collected in the fiscal year five years prior, adjusted by the percentage increase in inflation over the preceding five fiscal years.

(b) The amount of net general revenue collected required by subparagraph a of paragraph (a) of this subdivision in order to make a reduction pursuant to this subsection shall be adjusted annually by the percent increase in inflation beginning with the effective date of this section.

This proposal also adds language that starting January 1, 2023, eliminates the current lowest tax bracket. This would make the lowest bracket start at $1,000 instead of $100.

For fiscal note purposes only, the Department shows the individual income tax reductions occurring in consecutive years. Using the Department's internal Income Tax Model that contains confidential taxpayer data, DOR was able to estimate the following impact of these new changes starting in tax year 2023.

Tax Year	Amount
2023	($309,618,774)
2024	($367,313,334)
2025	($369,576,908)
2026	($368,358,203)
2027	($370,662,102)

The Department uses a 42%/58% split when converting from tax years to fiscal years.

Fiscal Year	Loss to GR
2023	($130,039,885)
2024	($333,850,489)
2025	($368,264,035)
2026	($369,065,052)
2027	($369,325,840)
2028	($370,662,102)

This proposal will require computer upgrades, form changes and website changes. This is estimated at $10,000 in one-time costs.

Oversight notes that DOR assumes this proposal will require programming changes estimated to cost $10,000. **Oversight** assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

In response to a previous version of this bill, officials from the **Office of Administration - Budget and Planning (B&P)** note Section 143.011 would reduce the top tax rate to 4.95% beginning with tax year 2023. This would also create an additional rate reduction of 0.15% as early as tax year 2024, depending on net general revenue growth. In order to trigger this reduction, net general revenue must grow by $175 million over the largest of the three previous fiscal years.

In addition, as early as tax year 2025 three additional 0.1% reductions may occur, depending on net general revenue growth. In order to trigger these reductions, net general revenue must grow by at least $200 million, adjusted for inflation, over the highest of the three previous fiscal years and net general revenue must be greater than the five-year inflation adjusted net general revenue.

Section 143.021 would eliminate the bottom individual income tax bracket.

B&P notes that under current law the top tax rate will be 5.2% starting with tax year 2023. B&P notes that per SB 153 (2021) there will be a 0.1% reduction in the top rate for tax year 2024. Based on current revenue forecasts and average revenue growth, B&P estimates that revenues in FY24, FY25, and FY26 will reach the growth trigger requirement for reductions to the top rate of tax. Therefore, the top rate of tax is estimated to be reduced by 0.1% in tax years 2025, 2026, 2027 under SB 509 (2014) and SB 153 (2021). For the purpose of this fiscal note, B&P will assume that the rate reductions created under this proposal will trigger for each tax year from 2024 through 2027. However, B&P acknowledges that it is unlikely that the reductions will trigger in consecutive years. Table 1 shows the current versus proposed top rate of tax.

Table 1: Current versus Proposed Top Tax Rate

Tax Year	Current Law	Proposed
2023	5.20%	4.95%
2024	5.10%	4.80%
2025	5.00%	4.70%
2026	4.90%	4.60%
2027	4.80%	4.50%

Using tax year 2019 data, the most recent complete tax year available, and accounting for the changes in individual income tax law created by SB 509 (2014) and SB 153 (2021), B&P estimates that this proposal may reduce tax collections by $311.0M in tax year 2023. Once this proposal fully implements, B&P estimates this provision could reduce tax collections by $371.2M annually, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 2 shows the estimated revenue impact by tax year.

Table 2: Estimated Impact by Tax Year

Tax Year	GR Impact
2023	($311,033,037)
2024	($369,130,762)
2025	($371,418,054)
2026	($370,204,431)
2027	($371,230,602)

However, because this proposal would take effect January 1, 2023, individuals will adjust their withholdings and declarations during FY23. Based on actual collections data, B&P estimates that 42% of individual income taxes are paid during fiscal year 1 and 58% are paid during fiscal year 2. Therefore, B&P estimates that this provision could reduce TSR and GR by $130.6M in FY23. Once fully implemented, and annually thereafter, this proposal may reduce TSR and GR by $371.2M, compared to revenues under SB 509 (2014) and SB 153 (2021) with a top rate 4.8%. Table 3 shows the estimated impact by fiscal year.

Table 3: Estimated Impact by Fiscal Year

Fiscal Year	GR Impact
2023	($130,633,876)
2024	($335,434,081)
2025	($370,091,425)
2026	($370,908,333)
2027	($370,635,423)
2028	($371,230,602)

Oversight notes that under the current law, SB 509 (2014) and SB 153 (2021) allows for a top rate of 4.8% to be established by CY 2027, as shown below.

Oversight notes that this proposal reduces the top individual income tax rate to 4.95% beginning with the 2023 calendar year. This proposal allows an additional 0.15% GR-growth-dependent reduction in calendar 2024 to 4.8%. Finally, Oversight notes this proposal also allows for an additional three tenths of the percentage decline after the State reaches the 4.8% tax top rate. Each year, for purpose of this fiscal note, the additional trigger would be met to show the greatest impact to the general revenue as shown below:

Tax Year	Current Law	Proposed Law	Effect
2023	5.20%	4.95%	Proposed top individual income tax rate
2024	5.10%	4.80%	Proposed fifteen hundredths of a percent reduction
2025	5.00%	4.70%	Proposed one-tenth of a Percent reduction (Dependent on GR growth)
2026	4.90%	4.60%	Proposed one-tenth of a Percent reduction (Dependent on GR growth)
2027	4.80%	4.50%	Proposed one-tenth of a Percent reduction (Dependent on GR growth)

Oversight notes both DOR and B&P's estimates include data from DOR and B&P's internal Income Tax Model. Additionally, **Oversight** notes both DOR and B&P's estimates of revenue impact assume all scheduled rate reductions will occur.

Oversight notes that it does not currently have the resources and/or access to state tax data to produce a thorough independent revenue estimate and is unable to verify the revenue estimates provided by B&P and DOR. Therefore, for the purpose of this fiscal note, Oversight will note B&P's estimated impact for this proposal.

Section 143.071 Corporate Income Tax Rate Reductions

Oversight notes the corporate tax rate is currently 4%. According to the DOR, the FY 2022 net corporate tax collections were $711.1M. Oversight is unable to determine when these reductions will occur. For the simplicity of the fiscal note, Oversight will assume these reductions will trigger consecutively as shown in the table below:

Fiscal Year	**Corporate Tax Rate**	**Corporate Tax Collections**	**Annual Loss**
2023	4.00	$ 711,100,000	$ -
2024	3.00	$ 533,325,000	$ (177,775,000)
2025	2.00	$ 355,550,000	$ (355,550,000)
2026	1.75	$ 233,329,688	$ (477,770,313)
2027	1.50	$ 133,331,250	$ (577,768,750)
2028	1.25	$ 72,915,527	$ (638,184,473)
2029	1.00	$ 33,332,813	$ (677,767,188)
2030	0.75	$ 13,671,661	$ (697,428,339)
2030	0.50	$ 4,166,602	$ (706,933,398)
2031	0.25	$ 854,479	$ (710,245,521)
2032	0.00	$ -	$ (711,100,000)

Oversight notes that the financial institution tax is paid annually in the fiscal year following the end of a calendar year. According to DOR, in FY22, financial institutions tax collections were $53,870,066 at a tax rate of 4.48%. Per Section 148.720 whenever there is a reduction in the corporate tax rate, there shall be a proportional decrease in the financial institutions tax.

Oversight further notes that the financial institutions tax is distributed to GR (2%) and local funds (98%) on an annual basis and that tax payments for tax year 1 are distributed in FY2. Oversight estimates the impact to general revenue and local funds in the table below:

		2%	**98%**
Fiscal Year	**Loss**	**GR**	**Locals**
2023	$ -	$ -	$ -
2025	$(13,467,517)	$(269,350)	$(13,198,166)
2026	$(26,935,033)	$(538,701)	$(26,396,332)
2027	$(30,301,912)	$(606,038)	$(29,695,874)
2028	$(33,668,791)	$(673,376)	$(32,995,415)
2029	$(37,035,670)	$(740,713)	$(36,294,957)
2030	$(40,402,550)	$(808,051)	$(39,594,499)
2031	$(43,769,429)	$(875,389)	$(42,894,040)
2032	$(47,136,308)	$(942,726)	$(46,193,582)
2033	$(50,503,187)	$(1,010,064)	$(49,493,123)
2034	$(53,870,066)	$(1,077,401)	$(52,792,665)

<u>Section 144.016 Diapers and Feminine Hygiene Products Reduced Sales Tax Rate</u>

In response to a similar proposal (HB 2272 - 2022), officials from the **Department of Revenue (DOR)** DOR noted that the average child wears diapers for three years before becoming fully toilet trained. DOR found the price of diapers vary from $0.20 per diaper for generics to $0.42 for name brand. Prices of diapers also depend on the size of the diaper. Estimates by various children's organizations indicate that an infant in the first year of life goes through 2,500 diapers. The next two years as toddlers they go through 1,500 diapers annually.

Wearing Diaper	How Many	Low Price per Diaper	High Price per Diaper	Total Cost Low	Total Cost High
First Year (Size 1)	2,500	0.20	0.27	500	675
Second Year (Size 3)	1,500	0.30	0.41	450	615
Third Year (Size 5)	1,500	0.32	0.42	480	630

Based on the Department of Health and Senior Services, the average number of resident births from 2017- 2019 was 72,800. Given that 3 years' worth of children are wearing diapers in any one year (1 set of infants and 2 sets of toddlers), DOR estimates the following:

Births Annually	72,800
# of kids in Diapers Annually	218,400
# of Diapers Annually	
infant	182,000,000
toddler (2yrs)	218,400,000
total (kids * diapers)	400,400,000

DOR calculated the difference in the current amount paid in sales tax (4.225%) to the proposed amount (1.225%). DOR assumes this would eliminate the 3% General Revenue portion of the state sales tax.

	Tax Rate	Low Price Tax Collected	High Price Tax Collected
Taxable Sales		104,104,000	139,776,000
Current Rate	4.225%	4,398,394	5,905,536
Proposed Rate	1.225%	1,275,274	1,712,256
Difference		3,123,120	4,193,280

This proposal is to start as of October 1, 2022. For three months in FY 2023, the tax will continue to be collected. This would result in a loss to general revenue:

Fiscal Year	Low Impact	High Impact
FY 2023 (9 month)	($2,342,340)	($3,144,960)
FY 2024	($3,123,120)	($4,193,280)
FY 2025	($3,123,120)	($4,193,280)

Adult Diapers
DOR notes approximately one third of adults age 65 and older have moderate to severe urinary incontinence and 6 percent had moderate to severe bowl incontinence. According the United State Census Bureau 2019 population report, 1,057,943 individuals residing in Missouri were 65 or over. The Department notes that it is estimated that people with minor to moderate incontinence wear approximately 4 diapers per day while those with those with full urinary or fecal incontinence wear 6 diapers per day. The Department estimates that approximately 285,645 individuals aged 65 and over would utilize the four adult urinary incontinence diapers while 63,477 would wear 6 adult diapers daily.

The average cost for urinary incontinence diapers is $1.31 per diaper.

Number of people	# of Diapers	Days per year	Total Diapers per person	Price per diaper	Total Sales
285,645	4	365	1460	1.31	546,323,881
63,477	6	365	2190	1.31	182,107,960
					728,431,841

DOR calculated the difference in the current amount paid in sales tax (4.225%) to the proposed amount (1.225%). DOR assumes this would eliminate the 3% General Revenue portion of the state sales tax.

	Tax Rate	Tax Collected
Current Rate	3.00%	21,852,955
Proposed Rate	1.00%	7,284,318
Difference		14,568,637

DOR assumes this proposal would become effective October 1, 2022. Therefore, there will be three months of tax collected in FY 2023 before the products become exempt. DOR will show 9 months of impact in FY 2023.

Fiscal Year	Impact
FY 2023 (9months)	($10,926,478)
FY 2024	($14,568,637)
FY 2025	($14,568,637)

Feminine Hygiene Products

Information from numerous sources indicates that a woman menstruates 500 times in her lifetime, usually between the ages of 13-51. The average length of a period is 3-7 days. Sources indicate that a woman uses the following:

	Number per cycle	Number per year	Number in Box	Boxes per year
Tampons	20	260	36	7.22
Pads/Panty Liners	5	65	36	1.81

DOR notes a woman has 13 cycles a year (28 day cycle)/352 days a year. The price per tampons and pads vary. DOR used a low and high price when determining the fiscal impact.

	Price Low	Price High	Total Cost Low	Total Cost High
Tampons	$7.00	$10.00	$50.56	$72.22
Pads/Panty Liners	$7.00	$10.00	$12.64	$18.06
			$63.19	$90.28

Using information from the US Census Bureau (2019 ACS 5 year estimates), DOR calculated the number of women having a period in Missouri (those between 13 and 51) as 1,515,420.

	Total Cost Low	Total Cost High
Total estimated cost per year	$95,766,125	$136,808,750
GR Portion	$2,872,984	$4,104,263

This proposal begins October 1, 2022 (FY 2023). DOR will show a lesser loss to Fiscal Year 2023 because there are three months in Fiscal Year 2023 in which feminine products would remain applicable to have the full amount of state sales tax collected. This would result in the following loss:

	Low	High
FY 2023 (9months)	($2,154,738)	($3,078,197)
FY 2024	($2,872,984)	($4,104,263)
FY 2025	($2,872,984)	($4,104,263)

DOR noted this would require one-time computer programming and form changes. This is estimated to cost $7,192.

Oversight notes the Department of Revenue expects programming upgrades at an estimated cost of $7,192. Oversight assumes DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes the DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, the DOR could request funding through the appropriation process.

In response to a similar proposal (HB 2272 - 2022), officials from the **Office of Administration - Budget and Planning (B&P)** noted this provision would reduce the state sales tax rate for feminine hygiene products and diapers from the current rate of 4.225% to the same rate as the levy on food beginning October 1, 2022. B&P notes that the state levy on food is equal to 1.225% and does not include the 3% tax that would otherwise be deposited into GR.

<u>Diaper (Child) Sales Tax Reduction</u>
Based on research, B&P found that the average amount spent on diapers was $550 to $840 per year. Based on information from the University of Michigan Hospital, the average age until children are toilet trained is 2.5 years. Based on information provided by the United State Census 2019 population estimates (the most recent complete year available), there were approximately 217,232 children living in Missouri ages 0-2 years old.

Therefore, B&P estimates total sales of $119,477,600 (217,232 children x $550) up to $182,474,880 (217,232 children x $840) may be impacted by this proposal. B&P estimates that eliminating the GR portion of the state sales tax, would reduce TSR and GR by $3,584,328 to $5,474,246 annually.

<u>Diaper (Adult) Sales Tax Reduction</u>
According to research completed by the CDC, approximately 25% of adults age 65 and up had moderate to severe urinary incontinence and 8% had moderate to severe bowel incontinence. B&P notes that according the United State Census 2019 population (the most recent complete year available) estimates there were approximately 1,062,037 individuals residing in Missouri age 65 and over.

Based on these numbers, B&P estimates that approximately 265,509 individual age 65 and over would utilize adult urinary incontinence diapers. B&P further estimates that approximately 84,963 individuals residing in Missouri age 65 and over would utilize adult bowel incontinence diapers.

Based on information from a budgeting website, the average cost for urinary incontinence diapers is $160 to $240 per month, for a yearly cost of $1,920 to $2,880. Further information from the budgeting website lists the average monthly bowel incontinence diapers is $60 to $180 per month, for a yearly cost of $720 to $2,160.

B&P estimates that total annual sales for urinary incontinence adult diapers would be approximately $509,777,760 (265,509 people x $1,920 annual cost) up to $764,666,640 (265,509 people x $2,880 annual cost).

B&P further estimates that the total annual sales for bowel incontinence adult diapers would be $61,173,331 (84,963 people x $720 annual cost) up to $183,519,994 (84,963 people x $2,160 annual cost).

Therefore, B&P estimates total sales of $570,951,091 ($509,777,760 + $61,173,331) up to $948,186,634 ($764,666,640 + $183,519,994) may be impacted by this proposal. B&P estimates that eliminating the GR portion of the state sales tax, would reduce TSR and GR by $17,128,533 to $28,445,599 annually.

Feminine Hygiene Products

Based on information from multiple sites, B&P estimates that women purchase an average of 6.8 to 7.2 boxes of tampons and 1.7 to 1.8 boxes of pads and liners per year (using the average cycle length of 28 to 30 days), with an average price of $7 to $10 per box. B&P was also able to determine that the average age for menstruation is 12-51, and based on data provided by the United State Census 2019 population estimates (the most recent complete year available), there are approximately 1,549,453 woman between those ages residing in Missouri.

Therefore, B&P estimates total sales of $91,622,359 to $140,238,305 may be impacted by this proposal. B&P estimates that reducing the sales tax rate on feminine hygiene products from 3.225% to 1.225% will reduce TSR and GR by $2,748,671 to $4,207,149 annually.

Summary

B&P estimates that this proposal may reduce TSR and GR by $17,596,149 to $28,595,246 in FY23. Once fully implemented in FY24, this proposal may reduce TSR and GR by $23,461,532 to $38,126,995 annually. Table 1 shows a summary of the estimated impact on TSR by sales tax exemption.

Table 1: Loss to GR by Exemption

State Fund	FY23		FY24	
General Revenue	Low	High	Low	High
Diapers - Child	($2,688,246)	($4,105,685)	($3,584,328)	($5,474,246)
Diapers - Adult	($12,846,400)	($21,334,199)	($17,128,533)	($28,445,599)
Feminine Hygiene Products	($2,061,503)	($3,155,362)	($2,748,671)	($4,207,149)
Total GR Loss	**($17,596,149)**	**($28,595,246)**	**($23,461,532)**	**($38,126,995)**

Oversight notes both DOR & B&P assumed this proposal will have a negative fiscal impact to state funds. Oversight notes DOR and B&P's estimated impacts for FY 2023 were estimated under an assumed effective date of October 1, 2022. Oversight has adjusted the FY 2023 estimates to reflect this proposal's start date of January 1, 2023 (FY 2023 impact of 6 months).

Oversight will show B&P's and DOR's lowest and highest projected fiscal estimates to show the minimum low and maximum high impact of this proposal with the adjusted amount for FY 2023.

Oversight notes the Park, Soil, and Water Sales Tax funds are derived from the one-tenth of one percent sales and use tax pursuant to Article IV Section 47 (a) thus DNR's sales taxes are constitutional mandates. **Oversight** notes this proposal would reduce the tax rate from 4.225% to 1.225% on diapers, feminine hygiene products and incontinence products. Therefore, it would allow DNR to retain their current funding and would be a loss only to General Revenue of its 3%.

Oversight notes that 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 thus MDC=s sales taxes are constitutional mandates. **Oversight** notes this proposal would reduce the tax rate from 4.225% to 1.225% on diapers, feminine hygiene products and incontinence products. Therefore, it would allow MDC to retain their current funding and would be a loss only to General Revenue of its 3%.

FISCAL IMPACT – State Government	FY 2023 (6 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2034)
GENERAL REVENUE FUND				
Revenue Reduction - §135.333– Refundable Adoption Tax Credit p. 3-4	Less than ($100,000)	Less than ($100,000)	Less than ($100,000)	Less than ($100,000)
Revenue Loss - §143.011 - §143.021 Individual Income Tax p. 4-8	($130,633,876)	($335,434,081)	($370,091,425)	($371,230,602)
Revenue Loss - §143.071 – Changes to Corporate Tax p. 8-9	$0	($177,775,000)	($355,550,000)	Could exceed ($711,100,000)
Revenue Loss - §143.071 (§148.720)– Changes to Financial Institutions Tax p. 8-9	$0	$0	($269,350)	($1,077,401)
Revenue Reduction - §144.016 - Reduction of sales tax rate on child diapers p.9-14	($1,561,560 - $2,737,123)	($3,123,120 - $5,474,246)	($3,123,120 - $5,474,246)	Could exceed ($3,123,120 - $5,474,246)
Revenue Reduction - §144.016 - Reduction of sales tax rate on adult diapers p. 9-14	($8,564,267)- $14,222,799)	($17,128,533 - $28,445,599)	($17,128,533 - $28,445,599)	Could exceed ($17,128,533 - $28,445,599)

Revenue Reduction - §144.016 - Reduction of sales tax rate on feminine hygiene products p. 9-14	($1,374,335)- $2,103,575)	($2,061,503- $3,155,362)	($2,061,503- $3,155,362)	Could exceed ($2,061,503- $3,155,362)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($142,134,038- $149,797,373)**	**($535,522,237 - $550,384,288)**	**($748,223,931 - $763,085,982)**	**Could exceed ($1,105,721,159- $1,120,583,210)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2034)
LOCAL POLITICAL SUBDVISIONS				
Revenue Loss - §148.720 (§143.071) – Decrease of financial institutions tax p. 10-11	$0	$0	($13,198,166)	($52,792,665)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDVISIONS	**$0**	**$0**	**($13,198,166)**	**($52,792,665)**

FISCAL IMPACT – Small Business

Certain small businesses may pay less in state tax as a result of this proposal.

Small businesses that buy and/or sell feminine hygiene products or diapers would have to collect/pay a different sales tax rate on these items

FISCAL DESCRIPTION

This proposal modifies provisions relating to taxation.

This act contains emergency clauses.

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 - Budget and Planning

Julie Morff	Ross Strope
Director	Assistant Director
	September 28, 2022