

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3488H.02C
 Bill No.: HCS for HB 1462
 Subject: Firearms; Transportation; Buses; Railroads
 Type: Original
 Date: February 11, 2022

Bill Summary: This proposal changes the law regarding firearms.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	(\$9,547,388 - \$35,955,000)	(\$11,456,865 - \$43,146,000)	(\$11,456,865 - \$43,146,000)
Total Estimated Net Effect on General Revenue	(\$9,547,388 - \$35,955,000)	(\$11,456,865 - \$43,146,000)	(\$11,456,865 - \$43,146,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
School District Trust Fund (0688)	(\$3,182,463 - \$11,985,000)	(\$3,818,955 - \$14,382,000)	(\$3,818,955 - \$14,382,000)
Parks and Soils State Sales Tax Funds (0613 & 0614)	(\$318,246 - \$1,198,500)	(\$381,896 - \$1,438,200)	(\$381,896 - \$1,438,200)
Conservation Commission Fund (0609)	(\$397,808 - \$1,498,125)	(\$477,369 - \$1,797,750)	(\$477,369 - \$1,797,750)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$3,898,517 - \$14,681,625)	(\$4,678,220 - \$17,617,950)	(\$4,678,220 - \$17,617,950)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	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
Local Government	(\$12,825,324 - \$48,299,550)	(\$15,390,389 - \$57,959,460)	(\$15,390,389 - \$57,959,460)

FISCAL ANALYSIS

ASSUMPTION

§§70.441, 571.107, 577.703, and 577.712 – Firearms on public transit

In response to a previous version (HB 1462), officials from the **Office of the State Public Defender** and the **Kansas City Police Department** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these sections.

§144.030 - Taxation

In response to similar legislation from 2022 (HB 1577), officials from the **Office of Administration - Budget and Planning (B&P)** assumed this proposal may reduce TSR by \$24,295,963 to \$44,188,599 annually.

B&P notes this proposal will impact the calculation under Article X, Section 18(e).

Section 144.030 – Firearm and Ammunition Sales Tax Exemption

B&P notes this provision would exempt firearms, firearm components, ammunition, and the components of making ammunition from sales tax beginning August 28, 2022.

B&P notes that firearm components include the action, stock, and barrel. Ammunition components include the cartridge case, primer cap, propellant powder, and projectile. B&P was unable to determine how much of any such items are sold within Missouri.

For the purpose of this fiscal note, B&P assumes that bullet manufactures located within Missouri are already receiving a sales tax exemption under Section 144.054 (manufacturing sales tax exemption).

Firearms

For the purpose of this fiscal note, B&P used the number of FBI background checks to estimate the number of guns purchases per year. B&P notes that not every background check will result in the purchase of a firearm and some background checks will result in the purchase of multiple firearms.

Based on data published by the FBI, the average number of background checks was 592,972 for 2019-2021. Based on research, B&P determined that the average price of a firearm is \$650. Therefore, B&P estimates that this provision will exempt approximately \$385,431,800 (592,972 x \$650) in taxable sales from state and local sales taxes.

Ammunition

Based on price research, B&P estimates that the average price of ammunition for the following types of firearms:

- Handguns - \$0.45 per round
- Rifles - \$2.00 per round
- Shotguns - \$1.07 per round
- Specialty guns (antiques) - \$1.18 per round

Based on further research, B&P found that the average gun owner also purchases the following amounts of ammunition rounds:

- Handguns – 500 to 1,500 rounds
- Rifles – 500 to 2,000 rounds
- Shotguns – 250 to 1,000 rounds
- Specialty guns (antiques) – 50 to 250 rounds

Therefore, B&P estimates that the average gun owner spends the following amount on ammunition:

- Handguns - \$225 to \$675
- Rifles - \$1,000 to \$4,000
- Shotguns - \$268 to \$1,070
- Specialty guns (antiques) - \$59 to \$295

B&P notes that based on additional data, 74% of ammunition purchases are made for handguns.

Using the FBI background data (discussed above), B&P estimates that this provision could exempt \$189,620,586 to \$660,452,241 in taxable sales from state and local sales taxes. B&P notes that this estimate only includes ammunitions purchases for new guns and does not include additional purchases for firearms that were bought in previous years.

Summary

Once fully implemented in FY24, B&P estimates that this provision could reduce TSR by \$24,295,963 to \$44,188,599 and GR by \$17,251,572 to \$31,376,520. Using the population weighted sales tax rate of 4.03% for 2021, B&P estimates that this provision may reduce local sales tax collections by \$23,174,611 to \$42,149,126 once fully implemented in FY24.

Table 1: Impact by Fund

State Funds	FY23		FY24	
	Low	High	Low	High
General Revenue	(\$14,376,310)	(\$26,147,100)	(\$17,251,572)	(\$31,376,520)
Education (SDTF)	(\$4,792,103)	(\$8,715,700)	(\$5,750,524)	(\$10,458,840)
Conservation	(\$599,013)	(\$1,089,463)	(\$718,815)	(\$1,307,355)
DNR	(\$479,210)	(\$871,570)	(\$575,052)	(\$1,045,884)
Total State Loss	(\$20,246,636)	(\$36,823,833)	(\$24,295,963)	(\$44,188,599)
Local Funds				
Local Sales Tax	(\$19,312,176)	(\$35,124,272)	(\$23,174,611)	(\$42,149,126)

Officials from the **Department of Revenue (DOR)** state this proposal would grant a state and local sales tax exemption for firearms sold in this state. The current sales tax rate on firearms and ammunition is 4.225%. This would remove the tax on these purchases starting August 28, 2022, the effective date of this proposal.

The Department notes the current state sales tax is 4.225%:

General Revenue is	3%
School District Trust Fund is	1%
Conservation Commission is	0.125%
Parks, Soil & Water Funds are	0.1%
Total	4.225%

The state uses a 4.03% weighted average for the local sales tax.

DOR researched the price of various firearms. DOR found that no single source maintains data on the amount of firearms that are sold annually. DOR found that prices varied on the different types of firearms:

Rifles \$500 - \$10,000
 Shotguns \$400 - \$2,000
 Handguns \$250 - \$2,500
 Revolvers \$200 - \$1,500

The FBI background check report for Missouri in 2021 showed 634,191 background checks were completed but does not record the price of a firearm. The Department used a \$500 cost for a firearm to estimate the impact of this proposal.

DOR determined this would be a loss to the state and locals of approximately \$26,176,234.

DOR notes this proposal becomes effective August 28, 2022. For the simplicity of the fiscal note, DOR will show an impact of 10 months in FY 2023. The lost revenue would be distributed among the funds as follows:

Firearms	FY 2023 (10 months)	FY 2024	FY 2025
General Revenue	(\$7,927,388)	(\$9,512,865)	(\$9,512,865)
School District	(\$2,642,463)	(\$3,170,955)	(\$3,170,955)
Conservation	(\$330,308)	(\$396,369)	(\$396,369)
Park Soil	(\$264,246)	(\$317,096)	(\$317,096)
Locals	(\$10,649,124)	(\$12,778,949)	(\$12,778,949)

DOR was unable to find information on the amount of ammunition sold in Missouri. However, the National Shooting Sports Foundation estimates at least 12 billion rounds of ammunition are manufactured in the United States annually. Given that Missouri's population is 1.8% of the total population, DOR assumes that as much as 216,000,000 rounds of ammunition are sold in Missouri annually.

DOR notes just like the firearms that vary in price based on the size of the weapon, so does the ammunition. The current price is anywhere from \$15 to \$60 per box, with anywhere from 20 rounds to 50 rounds per box. Assuming all the ammunition in Missouri were sold as 50 rounds per box it would result in 4.32 million boxes of ammunition being sold. At the minimum price of \$15 per box this would result in taxable sales of \$64,800,000. At the state sales tax rate of 4.225% this proposal would result in a loss of \$2,737,800 in state sales tax and another \$2,611,440 in local sales tax being exempt. Using this information there could be a loss of:

Ammunition	tax rate	FY 2023 (10 months)	FY 2024+
General Revenue	0.03	(\$1,620,000)	(\$1,944,000)
School District	0.01	(\$540,000)	(\$648,000)
Conservation	0.00125	(\$67,500)	(\$81,000)
Park Soil	0.001	(\$54,000)	(\$64,800)
Locals	0.0403	(\$2,176,200)	(\$2,611,440)

The Bureau of Economic Analysis maintains records on the amount of sporting equipment, supplies, guns and ammunition that are sold annually. However, these items are lumped together and not segregated for just firearms or ammunition. According to their July 1, 2020 report there was \$79.9 billion in goods sold in this category. Since Missouri is 1.8% of the population, DOR could assume that \$1,438,200,000 of that category is sold here.

Sporting Goods	FY 2023 (10 months)	FY 2024
General Revenue	(\$35,955,000)	(\$43,146,000)
School District	(\$11,985,000)	(\$14,382,000)
Conservation	(\$1,498,125)	(\$1,797,750)
Park Soil	(\$1,198,500)	(\$1,438,200)
Locals	(\$48,299,550)	(\$57,959,460)

For the purpose of the fiscal note, DOR will range the impact from the firearms and ammunition combined amount (low range) to the sporting goods amount (high range).

	FY 2023 (10 months)		FY 2024	
	Low	High	Low	High
General Revenue	(\$9,547,388)	(\$35,955,000)	(\$11,456,865)	(\$43,146,000)
School District	(\$3,182,463)	(\$11,985,000)	(\$3,818,955)	(\$14,382,000)
Conservation	(\$397,808)	(\$1,498,125)	(\$477,369)	(\$1,797,750)
Park Soil	(\$318,246)	(\$1,198,500)	(\$381,896)	(\$1,438,200)
Locals	(\$12,825,324)	(\$48,299,550)	(\$15,390,389)	(\$57,959,460)

DOR notes this proposal will require updates to the sales tax system of \$3,596. This proposal has the potential to increase the number of refund requests. DOR will need 1 Associate Customer Service Representative for every increase of 1,100 refund requests. At this time DOR believes they can absorb the impact, however, should DOR get enough refunds claims to justify new FTE, they will seek them through the appropriations process.

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. Officials from the DOR assume the proposal will have no fiscal impact on their organization.

Section 144.064 – Firearm and Ammunition Sales Tax Cap

B&P notes this proposal would repeal Section 144.064, which prohibits state and local sales tax on firearms and ammunition from exceeding the rate charged for sporting and hunting equipment. B&P notes that because this proposal exempts such items from state and local sales tax, the repeal of this provision is not expected to impact state or local revenues.

Officials from the **Department of Revenue** note this proposal repeals Section 144.064 that prohibited sales tax being levied on firearms and ammunition at a rate higher than the rate on all other goods. The repeal of this language will not result in a fiscal impact due to the changes made in Section 144.030.

Oversight notes both DOR and B&P assume this proposal will have a negative fiscal impact to both state and local funds. Therefore, Oversight will range the impact from the firearms and ammunition combined amount (low range) to the sporting goods amount (high range) estimated by DOR.

In response to similar legislation from 2022 (HB 1577), officials from the **Department of Conservation (MDC)** assumed the stated proposal would have an unknown fiscal impact, but greater than \$250,000. 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 decrease in sales and use tax collected would decrease revenue to the Conservation Sales Tax funds. However, 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 Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

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. Therefore, Oversight will reflect the B&P's and DOR's estimates of impact to MDC on the fiscal note.

Officials from the **City of Springfield** assume this proposal would have an unknown negative impact on their respective local subdivisions.

In response to similar legislation from 2022 (HB 1577), officials from the **City of Sikeston** noted that this proposal would have an unknown negative impact on their respective local subdivisions of an unknown amount.

Oversight notes the above local political subdivisions stated this proposal would have negative fiscal impact on their respective organizations of an indeterminate amount. Therefore, Oversight will note B&P and DOR's estimates for local political subdivisions on the fiscal note.

In response to similar legislation from 2022 (HB 1577), SEQ CHAPTER \h \r officials from the **Department of Conservation** deferred to the **Department of Revenue** for the potential fiscal impact of this proposal.

In response to similar legislation from 2022 (HB 1577), officials from the **Department of Elementary and Secondary Education** assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.
§571.031 – Blair’s Law

In response to similar legislation from 2022 (HB 1568), officials from the **Office of the State Public Defender (SPD)** stated the proposed legislation creates a new criminal offense under Section 571.031, which could increase the number of persons who are eligible for representation by State Public Defender (SPD). The fiscal impact of this legislation on SPD is unknown as the number of additional cases eligible for representation as the result of the legislation is unknown, but it is anticipated that the impact would be under \$250,000.

Oversight notes in FY22 the SPD was appropriated moneys for 53 additional FTE. Oversight assumes this proposal will create a minimal number of new cases and that the SPD can absorb the additional caseload required by this proposal with current staff and resources. Therefore, Oversight will reflect no fiscal impact to the SPD for fiscal note purposes. However, if multiple bills pass which require additional staffing and duties, the SPD may request funding through the appropriation process.

Officials from the **Department of Corrections (DOC)** state the areas already covered in statute for unlawfully discharging a firearm include dwelling house, railroad, train, boat, aircraft, motor vehicle, schoolhouses, courthouses or church buildings. These locations cover many areas within a municipality. For that reason, the additional instances which would fall within Blair’s Law is believed to have no fiscal impact to the department.

Officials from the **Missouri Office of Prosecution Services (MOPS)** assume the proposal will have no measurable fiscal impact on MOPS. The enactment of a new crime (571.031.4) creates additional responsibilities for county prosecutors and the circuit attorney which may, in turn, result in additional costs, which are difficult to determine.

In response to similar legislation from 2022 (HB 1568), officials from the **Department of Public Safety – Missouri National Guard**, the **Missouri Department of Conservation**, the **City of St. Louis**, and the **Kansas City Police Department** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this section.

Bill as a Whole

Officials from the **Attorney General's Office**, the **Department of Natural Resources**, the **Department of Public Safety - Missouri Highway Patrol**, the **Missouri Department of Transportation**, the **Office of the State Courts Administrator**, the **City of Kansas City**, the **El Dorado Springs Police Department**, the **Springfield Police Department**, the **St. Louis County Police Department**, the **Phelps County Sheriff's Department**, and **Greene County** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other police and sheriff's departments, cities, and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in Oversight's database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Revenue Reduction – (§144.064) Firearms and Ammunition Sales Tax Exemption p. 3-8</u>	<u>(\$9,547,388 - \$35,955,000)</u>	<u>(\$11,456,865 - \$43,146,000)</u>	<u>(\$11,456,865 - \$43,146,000)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$9,547,388 - \$35,955,000)</u>	<u>(\$11,456,865 - \$43,146,000)</u>	<u>(\$11,456,865 - \$43,146,000)</u>
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction – (§144.064) Firearms and Ammunition Sales Tax Exemption p. 3-8</u>	<u>(\$3,182,463 - \$11,985,000)</u>	<u>(\$3,818,955 - \$14,382,000)</u>	<u>(\$3,818,955 - \$14,382,000)</u>
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND (0688)	<u>(\$3,182,463 - \$11,985,000)</u>	<u>(\$3,818,955 - \$14,382,000)</u>	<u>(\$3,818,955 - \$14,382,000)</u>
<u>FISCAL IMPACT – State Government (continued)</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
PARKS AND SOILS STATE SALES TAX FUNDS (0613 & 0614)			
<u>Revenue Reduction – (§144.064) Firearms and Ammunition Sales Tax Exemption p. 3-8</u>	<u>(\$318,246 - \$1,198,500)</u>	<u>(\$381,896 - \$1,438,200)</u>	<u>(\$381,896 - \$1,438,200)</u>
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUNDS (0613 & 0614)	<u>(\$318,246 - \$1,198,500)</u>	<u>(\$381,896 - \$1,438,200)</u>	<u>(\$381,896 - \$1,438,200)</u>

CONSERVATION COMMISSION FUND (0609)			
Revenue Reduction – (§144.064) Firearms and Ammunition Sales Tax Exemption p. 3-8	<u>(\$397,808 - \$1,498,125)</u>	<u>(\$477,369 - \$1,797,750)</u>	<u>(\$477,369 - \$1,797,750)</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND (0609)	<u>(\$397,808 - \$1,498,125)</u>	<u>(\$477,369 - \$1,797,750)</u>	<u>(\$477,369 - \$1,797,750)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
Revenue Reduction – (§144.064) p. 8 Firearms and Ammunition Sales Tax	<u>(\$12,825,324 - \$48,299,550)</u>	<u>(\$15,390,389 - \$57,959,460)</u>	<u>(\$15,390,389 - \$57,959,460)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(\$12,825,324 - \$48,299,550)</u>	<u>(\$15,390,389 - \$57,959,460)</u>	<u>(\$15,390,389 - \$57,959,460)</u>

FISCAL IMPACT – Small Business

Certain small businesses that sell firearms or ammunition could be impacted by this proposal.

FISCAL DESCRIPTION

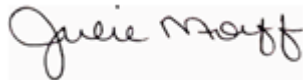
This bill specifies that all sales of new and used firearms, firearm components, ammunition, and tools and components of making ammunition are exempt from state and local sales and use taxes.

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

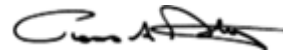
SOURCES OF INFORMATION

Attorney General’s Office
 Department of Corrections
 Department of Elementary and Secondary Education
 Department of Natural Resources

Department of Public Safety
Department of Revenue
Missouri Department of Conservation
Missouri Department of Transportation
Missouri Office of Prosecution Services
City of Kansas City
City of Sikeston
City of Springfield
City of St. Louis
Kansas City Police Department
El Dorado Springs Police Department
Springfield Police Department
St. Louis County Police Department
Phelps County Sheriff's Department
Greene County



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