

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4657H.011
 Bill No.: HB 2291
 Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use;
 Firearms; Department of Revenue
 Type: Original
 Date: January 8, 2024

Bill Summary: This proposal authorizes a sales tax exemption for firearms and ammunition.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue	Could exceed (\$6,181,912 to \$23,284,057)	Could exceed (\$8,242,550 to \$31,045,409)	Could exceed (\$8,242,550 to \$31,045,409)
Total Estimated Net Effect on General Revenue	Could exceed (\$6,181,912 to \$23,284,057)	Could exceed (\$8,242,550 to \$31,045,409)	Could exceed (\$8,242,550 to \$31,045,409)

*The fiscal impact for FY2025 is lesser because FY2025 is a partial year (9 months)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
School District Trust Fund	Could exceed (\$2,060,637 to \$7,761,352)	Could exceed (\$2,747,517 to \$10,348,469)	Could exceed (\$2,747,517 to \$10,348,469)
Conservation Fund	Could exceed (\$257,583 to \$970,170)	Could exceed (\$343,440 to \$1,293,559)	Could exceed (\$343,440 to \$1,293,559)
Park, Soil, and Water Fund	Could exceed (\$206,064 to \$776,136)	Could exceed (\$274,752 to \$1,034,847)	Could exceed (\$274,752 to \$1,034,847)
Total Estimated Net Effect on <u>Other</u> State Funds	Could exceed (\$2,524,284 to \$9,507,658)	(Could exceed \$3,365,709 to \$12,676,875)	Could exceed (\$3,365,709 to \$12,676,875)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	Could exceed (\$13,023,229 to \$49,051,747)	Could exceed (\$17,364,305 to \$65,402,329)	Could exceed (\$17,364,305 to \$65,402,329)

FISCAL ANALYSIS

ASSUMPTION

Section 144.064 Firearm & Ammunition Sales Tax Exemption

Officials from the **Department of Revenue (DOR)** note beginning August 28, 2024, this proposal would grant a state and local sales tax exemption for firearms and ammunition 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, 2024, the effective date of this proposal. It should be noted that sales tax is remitted one month behind collections so this will only have a 9-month impact in FY 2025.

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%

For fiscal note purposes, the Department is using a weighted local tax rate of 6.32% to calculate the average local sales tax loss. In an effort to more accurately reflect the estimated local impact, B&P and DOR have moved from a population weighted average local sales tax rate to a location weighted average local sales tax rate. This change was made to reflect where sales actually occur, rather than exclusively where people live.

Firearms

The Department could not find a single source that maintained the number of firearms sold in Missouri annually and the price of those firearms. For the fiscal note, DOR will use the number of firearms background checks performed by the FBI. DOR recognizes that not all checks result in a firearm purchase and that people can purchase more than one firearm per background check.

The FBI records from 2020 to 2023 show an average of:

Firearm	Purchases
handguns	257,421
long gun/rifle	608,367
multiple gun	16,094

Additional research indicates that the ownership of the long gun/rifles breaks down as 58% are rifles and 42% are shotguns. Based on all this data DOR estimates the following gun sales annually in MO.

Firearm	Number Sold	Low Price	Taxable Sales at Low Price	High Price	Taxable Sales at High Price
Handguns	265,469	\$255	\$67.6 million	\$640	\$169.9 million
Rifles	122,063	\$710	\$86.6 million	\$3,030	\$369.8 million
Shotguns	88,773	\$580	\$51.4 million	\$785	\$69.6 million

Removing the sales tax on firearms is expected to result in a loss to the state:

Firearms Only	9/12Months		Full Year	
	Low	High	Low	High
	General Revenue	(\$4,631,573)	(\$13,712,349)	(\$6,175,430)
School District	(\$1,543,858)	(\$4,570,783)	(\$2,058,477)	(\$6,094,377)
Conservation	(\$192,983)	(\$571,348)	(\$257,310)	(\$761,797)
Park, Soil & Water	(\$154,386)	(\$457,079)	(\$205,848)	(\$609,438)
Local	(\$9,757,179)	(\$28,887,349)	(\$13,009,572)	(\$38,516,465)

Ammunition

The Department was also unable to find information on the amount of ammunition sold in Missouri. However, the National Shooting Sports Foundation annual report estimates at least 8.7 billion rounds of ammunition are manufactured in the United States annually. Given that Missouri’s population is 1.8% of the total population DOR could assume that as much as 146,600,000 rounds of ammunition may be sold in Missouri annually.

Just like firearms that vary in price based on the size of the weapon, so does the ammunition. The current price is anywhere from \$22 to \$74 per box, with 20 to 50 rounds per box. Assuming all the ammunition in Missouri were sold as 50 rounds per box it would result in 3,132,000 boxes of ammunition being sold. Using the \$22 to \$74 price per box and the 3,132,000 number of boxes DOR estimates the sales tax loss at:

	Sales tax on Low Price \$22 per box	Sales tax on High Price \$74 per box
General Revenue	(\$2,067,120)	(\$6,765,120)
School District	(\$689,040)	(\$2,255,040)

Conservation	(\$8,613)	(\$28,188)
Park, Soil & Water	(\$68,904)	(\$225,504)
Locals	(\$4,354,733)	(\$14,251,853)

This would result in a loss to the state per fund for each fiscal year:

Ammunition Only

	9 Months		Full Year	
	Low	High	Low	High
General Revenue	(\$1,550,340)	(\$5,073,840)	(\$2,067,120)	(\$6,765,120)
School District	(\$516,780)	(\$1,691,280)	(\$689,040)	(\$2,255,040)
Conservation	(\$6,460)	(\$21,141)	(\$8,613)	(\$28,188)
Park, Soil & Water	(\$51,678)	(\$169,128)	(\$68,904)	(\$225,504)
Locals	(\$3,266,050)	(\$10,688,890)	(\$4,354,733)	(\$14,251,853)

Summary

This will result in a loss to the state funds as follows:

Firearms & Ammunition

	9 Months		Full Year	
	Low	High	Low	High
General Revenue	(\$6,181,912)	(\$18,786,189)	(\$8,242,550)	(\$25,048,252)
School District	(\$2,060,637)	(\$6,262,063)	(\$2,747,517)	(\$8,349,417)
Conservation	(\$199,442)	(\$592,489)	(\$265,923)	(\$789,985)
Park, Soil & Water	(\$206,064)	(\$626,206)	(\$274,752)	(\$834,942)
Locals	(\$13,023,229)	(\$39,576,238)	(\$17,364,305)	(\$52,768,318)

This will require updates to the Department's sales tax system, estimated at \$1,785. This proposal also 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 the department can absorb the impact, however, should DOR get enough refunds claims to justify new FTE, the department will seek them through the appropriations process.

Oversight has corrected the DOR estimates for the Conservation Trust Fund. It appears the amounts estimated for ammunition sales tax contained an incorrect decimal placement (i.e. \$6,460 instead of \$64,600 and \$8,613 instead of \$86,130).

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 additional work and system upgrade 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.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would exempt the sales of firearms and ammunition from state and local sales taxes beginning August 28, 2024.

Firearms

For the purpose of this fiscal note, B&P will use 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, from 2020-2023 the average number of handgun related background checks was 257,421, the average number of long gun / rifle background checks was 202,789, and the number of background checks for multiple guns purchased at once was 16,094.

Based on ownership research, B&P determined that of long gun / rifle owners, 58% owned rifles and 42% owned shotguns.

Based on the above information, B&P estimates the following annual gun sales:

- Handguns – 265,469
- Rifles/muzzleloaders – 122,063
- Shotguns – 88,773

In addition, B&P found the average price for each gun type:

- Handguns – \$255 to \$640
- Rifles/muzzleloaders – \$710 to \$3,030
- Shotguns – \$580 to \$785

Therefore, B&P estimates that this proposal could exempt \$205,847,659 to \$609,437,737 in gun sales from state and local sales tax:

- Handguns – \$67,694,595 to \$169,900,190
- Rifles/muzzleloaders – \$86,664,693 to \$369,850,731
- Shotguns – \$51,488,371 to \$69,437,737

Ammunition

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

- Handguns - \$0.44 per round
- Rifles - \$0.57 per round
- Shotguns - \$1.40 per round
- Specialty guns (antiques) - \$1.47 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 - \$221 to \$662
- Rifles - \$284 to \$1,138
- Shotguns - \$350 to \$1,400
- Specialty guns (antiques) - \$74 to \$368

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 \$120,674,171 to \$425,409,246 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 FY26, B&P estimates that this provision could reduce TSR by \$13,795,549 to \$43,722,284 and GR by \$9,795,655 to \$31,045,409.

Using the location* weighted average local sales tax rate of 6.32% for 2023, B&P estimates that this provision may reduce local sales tax collections by \$20,636,180 to \$65,402,329 once fully implemented.

*In an effort to more accurately reflect the estimated local impact, B&P and DOR have moved from a population weighted average local sales tax rate to a location weighted average local sales tax rate. This change was made to reflect where sales actually occur, rather than exclusively where people live.

Table 1: Sales Tax Exemption Impact by Fund

State Funds	FY 2025		FY 2026+	
	Low	High	Low	High
General Revenue				
Firearms	(\$4,631,573)	(\$13,712,349)	(\$6,175,430)	(\$18,283,132)
Ammunition	(\$2,715,169)	(\$9,571,708)	(\$3,620,225)	(\$12,762,277)
Total GR	(\$7,346,742)	(\$23,284,057)	(\$9,795,655)	(\$31,045,409)
Education (SDTF)				
Firearms	(\$1,543,858)	(\$4,570,783)	(\$2,058,477)	(\$6,094,377)
Ammunition	(\$905,057)	(\$3,190,569)	(\$1,206,742)	(\$4,254,092)
Total Education	(\$2,448,915)	(\$7,761,352)	(\$3,265,219)	(\$10,348,469)
Conservation				
Firearms	(\$192,983)	(\$571,348)	(\$257,310)	(\$761,797)
Ammunition	(\$113,132)	(\$398,822)	(\$150,843)	(\$531,762)
Total Conservation	(\$306,115)	(\$970,170)	(\$408,153)	(\$1,293,559)
DNR				
Firearms	(\$154,386)	(\$457,079)	(\$205,848)	(\$609,438)
Ammunition	(\$90,506)	(\$319,057)	(\$120,674)	(\$425,409)
Total DNR	(\$244,892)	(\$776,136)	(\$326,522)	(\$1,034,847)
Total State Loss	(\$10,346,664)	(\$32,791,715)	(\$13,795,549)	(\$43,722,284)
Local Funds				
Firearms	(\$9,757,179)	(\$28,887,349)	(\$13,009,572)	(\$38,516,465)
Ammunition	(\$5,719,956)	(\$20,164,398)	(\$7,626,608)	(\$26,885,864)
Total Local Sales Tax	(\$15,477,135)	(\$49,051,747)	(\$20,636,180)	(\$65,402,329)

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

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 the proposed sales tax exemption would reduce the amount of sales tax revenue distributed to the Park, Soil and Water Sales Tax Fund. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for DNR’s funds.

Officials from the **Missouri Department of Conservation** assume an unknown fiscal impact. 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. The Department defers to the Department of Revenue as it is responsible for tax collection and 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 of the Missouri Constitution, thus MDC’s sales taxes are constitutional mandates. Oversight notes the proposed sales tax exemption would reduce the amount of sales tax revenue distributed to the Conservation Sales Tax Fund. Therefore, Oversight will reflect the B&P’s and DOR’s fiscal impact estimates for MDC’s funds.

Officials from the **City of Kansas City** assume the proposed legislation has a negative fiscal impact of an indeterminate amount.

Oversight notes the above local political subdivision stated this proposal would have a negative fiscal impact on their respective city of an indeterminate amount. **Oversight** notes the proposed sales tax exemption may reduce the amount of sales tax revenue distributed to all local political subdivisions. Therefore, Oversight will note B&P and DOR’s estimates for all local political subdivisions on the fiscal note.

Oversight notes B&P based the ammunition sales on the number of background checks (a proxy for annual gun purchases). However, approximately 48.8% of Missourians have guns at home. If Oversight applied the estimated range of gunowners spend on ammunition to the gunowner population in Missouri, the ammunition exemption is estimated as follows:

2,521,832 MO Households
 1,230,654 Households with Guns

	Low (\$221)	High (\$622)
Taxable Ammunition Sales	\$271,974,538	\$814,692,959
Local impact (assuming 6.3%)	\$17,188,791	\$51,488,595
GR impact (3.0%)	\$8,159,236	\$24,440,789

Sources: Households <https://data.census.gov/profile/Missouri?q=040XX00US29>

Gun Ownership: <https://www.cbsnews.com/pictures/gun-ownership-rates-by-state/28/>

The combined loss of revenue of the gun sales exemption (as estimated by BAP) and the ammunition exemption (using the ammunition estimate above) is estimated at \$14,334,666 to \$42,723,921 for General Revenue and \$30,198,363 to \$90,005,060 for local political subdivisions. Based on this estimate, **Oversight** will show the loss of revenue from the proposed ammunition sales exemption as could exceed the estimates provided by B&P.

Officials from the **Fruitland Area Fire Protection District (FRUI) - Cape Girardeau** and the **Cole Camp Ambulance District** each assume 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 for these agencies.

Oversight only reflects the responses received from state agencies and political subdivisions; however, officials from other cities and counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Firearms	(\$4,631,573 to \$13,712,349)	(\$6,175,430 to \$18,283,132)	(\$6,175,430 to \$18,283,132)
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Ammunition	Could exceed (\$1,550,340 to \$9,571,708)	Could exceed (\$2,067,120 to \$12,762,277)	Could exceed (\$2,067,120 to \$12,762,277)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	Could exceed (\$6,181,912 to \$23,284,057)	Could exceed (\$8,242,550 to \$31,045,409)	Could exceed (\$8,242,550 to \$31,045,409)
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Firearms	(\$1,543,858 to \$4,570,783)	(\$2,058,477 to \$6,094,377)	(\$2,058,477 to \$6,094,377)
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Ammunition	Could exceed (\$516,780 to \$3,190,569)	Could exceed (\$689,040 to \$4,254,092)	Could exceed (\$689,040 to \$4,254,092)

<u>FISCAL IMPACT – State Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	Could exceed (\$2,060,637 to \$7,761,352)	Could exceed (\$2,747,517 to \$10,348,469)	Could exceed (\$2,747,517 to \$10,348,469)
CONSERVATION TRUST FUND			
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Firearms	(\$192,983 to \$571,348)	(\$257,310 to \$761,797)	(\$257,310 to \$761,797)
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Ammunition	Could exceed (\$64,600 to \$398,822)	Could exceed (\$86,130 to \$531,762)	Could exceed (\$86,130 to \$531,762)
ESTIMATED NET EFFECT ON CONSERVATION TRUST FUND	Could exceed (\$257,583 to \$970,170)	Could exceed (\$343,440 to \$1,293,559)	Could exceed (\$343,440 to \$1,293,559)
PARK, SOIL, & WATER FUND			
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Firearms	(\$154,386 to \$457,079)	(\$205,848 to \$609,438)	(\$205,848 to \$609,438)
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Ammunition	Could exceed (\$51,678 to \$319,057)	Could exceed (\$68,904 to \$425,409)	Could exceed (\$68,904 to \$425,409)
ESTIMATED NET EFFECT ON PARK, SOIL, & WATER FUND	Could exceed (\$206,064 to \$776,136)	Could exceed (\$274,752 to \$1,034,847)	Could exceed (\$274,752 to \$1,034,847)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Firearms	(\$9,757,179 to \$28,887,349)	(\$13,009,572 to \$38,516,465)	(\$13,009,572 to \$38,516,465)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (9 Mo.)	FY 2026	FY 2027
<u>Revenue Reduction</u> - §144.064 - Sales Tax Exemption for Ammunition	Could exceed (\$3,266,050 to \$20,164,398)	Could exceed (\$4,354,733 to \$26,885,864)	Could exceed (\$4,354,733 to \$26,885,864)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	Could exceed (\$13,023,229 to \$49,051,747)	Could exceed (\$17,364,305 to \$65,402,329)	Could exceed (\$17,364,305 to \$65,402,329)

FISCAL IMPACT – Small Business

Small businesses that purchase or sell firearms or ammunition could be impacted by this proposal.

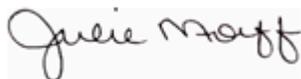
FISCAL DESCRIPTION

This bill specifies that firearms and ammunition sold in this state are exempt from state and local sales tax.

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
 Department of Natural Resources
 Missouri Department of Conservation
 City of Kansas City
 Fruitland Area Fire Protection District (FRUI) - Cape Girardeau
 Cole Camp Ambulance District



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 Director
 January 8, 2024



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