

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5677H.011
 Bill No.: HB 2859
 Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use;
 Department of Revenue; Health Care
 Type: Original
 Date: March 22, 2022

Bill Summary: This proposal exempts diapers from sales tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	(\$16,876,377 - \$28,266,538)	(\$20,251,653 - \$33,919,845)	(\$20,251,653 - \$33,919,845)
Total Estimated Net Effect on General Revenue	(\$16,876,377 - \$28,266,538)	(\$20,251,653 - \$33,919,845)	(\$20,251,653 - \$33,919,845)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
School District Trust Fund	(\$5,625,459 - \$9,422,179)	(\$6,750,551 - \$11,306,615)	(\$6,750,551 - \$11,306,615)
Conservation Commission Fund	(\$703,183 - \$1,177,772)	(\$843,819 - \$1,413,327)	(\$843,819 - \$1,413,327)
Parks and Soils State Sales Tax Fund(S)	(\$562,546 - \$942,218)	(\$675,055 - \$1,130,662)	(\$675,055 - \$1,130,662)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$6,891,188 - \$11,542,169)	(\$8,269,425 - \$13,850,604)	(\$8,269,425 - \$13,850,604)

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	(\$22,670,600 - \$37,971,383)	(\$27,204,720 - \$45,565,659)	(\$27,204,720 - \$45,565,659)

FISCAL ANALYSIS

ASSUMPTION

Section 144.030.2(1)

Officials from the **Department of Revenue (DOR)** note this section modifies the Missouri pesticide registration act to include the additional statutory references. This will not fiscally impact DOR.

Section 144.030.2(18)

Officials from the DOR note this section removes reference to certain federal statutes. This appears to be clean up language. This will not fiscally impact DOR.

Section 144.030.2(25)

Officials from the DOR note this section removes the sectional reference 4091, which was repealed by Congress. This will not fiscally impact DOR.

Section 144.030.2(46)

Officials from the DOR note this section removes the state and local sales tax on diapers, including both diapers worn by children as well as adults. The current state sales tax rate of is 4.225%. DOR used a 4.03% weighted average local tax rate. The current state tax rate is distributed as:

General Revenue is	3.000%	
School District Trust Fund is	1.000%	(Section 144.701)
Conservation Commission Fund is	0.125%	(Article IV, Section 43(a))
Parks, Soil & Water Funds	0.100%	(Article IV, Section 47(a))

Kids Diapers

DOR notes 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.

Year	Wearing Diaper How Many	Low Price per Diaper	High Price per Diaper	Total Cost Low	Total Cost High
First Year	2,500	0.2	0.27	\$500	\$675
Second Year	1,500	0.3	0.41	\$450	\$615
Third Year	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 notes this proposal would result in a loss to the state and locals of the following.

Diapers Taxable Sales		\$104,104,000	\$139,776,000
Fund	Tax Rate	Full Year - Low	Full Year - High
TSR	0.04225	\$4,398,394	\$5,905,536
GR	0.03	\$3,123,120	\$4,193,280
Education	0.01	\$1,041,040	\$1,397,760
DNR	0.001	\$104,104	\$139,776
Conservation	0.00125	\$130,130	\$174,720
Locals	0.0403	\$4,195,391	\$5,632,973

DOR assumes this proposal would become effective August 28, 2022. Therefore, there will be two months of tax collected in FY 2023 before the products become exempt. DOR will show 10 months of impact in FY 2023.

	FY 2023 (10 months) Low	FY 2023 High	FY 2024 Low	FY 2024 High
General Revenue	(\$2,602,600)	(\$3,494,400)	(\$3,123,120)	(\$4,193,280)
Education	(\$867,533)	(\$1,164,800)	(\$1,041,040)	(\$1,397,760)
Park, Soil & Water	(\$86,753)	(\$116,480)	(\$104,104)	(\$139,776)
Conservation	(\$108,442)	(\$145,600)	(\$130,130)	(\$174,720)
Locals	(\$3,496,159)	(\$4,694,144)	(\$4,195,391)	(\$5,632,973)

Adult Diapers

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
271,816	4	365	1460	1.31	519,874,803
60,404	6	365	2190	1.31	173,291,601
					693,166,405

This is expected to result in a loss to General Revenue and locals.

Diapers Taxable Sales	693,166,405	
	Tax Rate	Full Year
TSR	0.04225	\$29,286,281
GR	0.03	\$20,794,992
Education	0.01	\$6,931,664
DNR	0.001	\$693,166
Conservation	0.00125	\$866,458
		\$0
Locals	0.0403	\$27,934,606

DOR assumes this proposal would become effective August 28, 2022. Therefore, there will be two months of tax collected in FY 2023 before the products become exempt. DOR will show 10 months of impact in FY 2023.

	FY 2023 (10 months)	FY 2024
General Revenue	(\$17,329,160)	(\$20,794,992)
Education	(\$5,776,387)	(\$6,931,664)
Park, Soil & Water	(\$577,639)	(\$693,166)
Conservation	(\$722,048)	(\$866,458)
	\$0	\$0
Locals	(\$23,278,838)	(\$27,934,606)

DOR does not expect this proposal to have an administrative impact on the Department.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would exempt all sales of diapers from sales tax beginning August 28, 2022.

Diaper (Child) Sales Tax Reduction

B&P notes 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 become exempt from sales tax by this proposal. B&P estimates that this provision could reduce TSR by \$5,047,929 to \$7,709,564 annually. Using the population weighted average sales tax rate of 4.03% for 2021, B&P further estimates that this provision could reduce local sales tax collections by \$4,814,947 to \$7,353,738 annually.

Diaper (Adult) Sales Tax Reduction

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 become exempt from sales tax by this proposal. B&P estimates that this provision could reduce TSR by \$24,122,684 to \$40,060,885 annually. Using the population weighted average sales tax rate of 4.03% for 2021, B&P further estimates that this provision could reduce local sales tax collections by \$23,009,329 to \$38,211,921 annually.

Summary

B&P estimates that this proposal may reduce TSR by \$24,308,844 to \$39,808,707 during FY23. Between FY24 and FY27, this proposal may reduce TSR by \$29,170,612 to \$47,770,449 annually. During FY28, this proposal may reduce TSR by \$4,861,768 to \$7,961,741. This proposal will not impact state or local funds after FY28. Table 1 shows the estimated impact by provision and fund.

Table 1: Loss by Provision and Fund

State Fund	FY23		FY24		FY25	
	Low	High	Low	High	Low	High
General Revenue						
Diapers – Child	(2,986,940)	(4,561,872)	(3,584,328)	(5,474,246)	(3,584,328)	(5,474,246)
Diapers – Adult	(14,273,777)	(23,704,666)	(17,128,533)	(28,445,599)	(17,128,533)	(28,445,599)
Total GR Loss	(17,260,717)	(28,266,538)	(20,712,861)	(33,919,845)	(20,712,861)	(33,919,845)
Education						
Diapers – Child	(995,647)	(1,520,624)	(1,194,776)	(1,824,749)	(1,194,776)	(1,824,749)
Diapers – Adult	(4,757,926)	(7,901,555)	(5,709,511)	(9,481,866)	(5,709,511)	(9,481,866)
Total Education Loss	(5,753,573)	(9,422,179)	(6,904,287)	(11,306,615)	(6,904,287)	(11,306,615)
Conservation						
Diapers – Child	(124,456)	(190,078)	(149,347)	(228,094)	(149,347)	(228,094)
Diapers – Adult	(594,741)	(987,694)	(713,689)	(1,185,233)	(713,689)	(1,185,233)
Total Conservation Loss	(719,197)	(1,177,772)	(863,036)	(1,413,327)	(863,036)	(1,413,327)
DNR						
Diapers – Child	(99,565)	(152,062)	(119,478)	(182,475)	(119,478)	(182,475)
Diapers – Adult	(475,793)	(790,156)	(570,951)	(948,187)	(570,951)	(948,187)
Total DNR Loss	(575,358)	(942,218)	(690,429)	(1,130,662)	(690,429)	(1,130,662)
Total TSR Loss	(24,308,845)	(39,808,707)	(29,170,612)	(47,770,449)	(29,170,612)	(47,770,449)
Local Funds						
Diapers – Child	(4,012,456)	(6,128,115)	(4,814,947)	(7,353,738)	(4,814,947)	(7,353,738)
Diapers – Adult	(19,174,441)	(31,843,268)	(23,009,329)	(38,211,921)	(23,009,329)	(38,211,921)
Total Local Loss	(23,186,897)	(37,971,383)	(27,824,276)	(45,565,659)	(27,824,276)	(45,565,659)

Table 1: Loss by Provision and Fund (cont.)

State Fund	FY26		FY27		FY28	
	Low	High	Low	High	Low	High
General						
Revenue						
Diapers – Child	(3,584,328)	(5,474,246)	(3,584,328)	(5,474,246)	(597,388)	(912,374)
Diapers – Adult	(17,128,533)	(28,445,599)	(17,128,533)	(28,445,599)	(2,854,755)	(4,740,933)
Total GR Loss	(20,712,861)	(33,919,845)	(20,712,861)	(33,919,845)	(3,452,143)	(5,653,307)
Education						
Diapers – Child	(1,194,776)	(1,824,749)	(1,194,776)	(1,824,749)	(199,129)	(304,125)
Diapers – Adult	(5,709,511)	(9,481,866)	(5,709,511)	(9,481,866)	(951,585)	(1,580,311)
Total Education Loss	(6,904,287)	(11,306,615)	(6,904,287)	(11,306,615)	(1,150,714)	(1,884,436)
Conservation						
Diapers – Child	(149,347)	(228,094)	(149,347)	(228,094)	(24,891)	(38,016)
Diapers – Adult	(713,689)	(1,185,233)	(713,689)	(1,185,233)	(118,948)	(197,539)
Total Conservation Loss	(863,036)	(1,413,327)	(863,036)	(1,413,327)	(143,839)	(235,555)
DNR						
Diapers – Child	(119,478)	(182,475)	(119,478)	(182,475)	(19,913)	(30,412)
Diapers – Adult	(570,951)	(948,187)	(570,951)	(948,187)	(95,159)	(158,031)
Total DNR Loss	(690,429)	(1,130,662)	(690,429)	(1,130,662)	(115,072)	(188,443)
Total TSR Loss	(29,170,612)	(47,770,449)	(29,170,612)	(47,770,449)	(4,861,768)	(7,961,741)
Local Funds						
Diapers – Child	(4,814,947)	(7,353,738)	(4,814,947)	(7,353,738)	(802,491)	(1,225,623)
Diapers – Adult	(23,009,329)	(38,211,921)	(23,009,329)	(38,211,921)	(3,834,888)	(6,368,654)
Total Local Loss	(27,824,276)	(45,565,659)	(27,824,276)	(45,565,659)	(4,637,379)	(7,594,277)

Oversight notes both DOR & B&P assume this proposal will have a negative fiscal impact to both state and local funds. Therefore, 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.

Officials from the **Missouri Department of Conservation** state this proposal will 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 increase in sales and use tax collected would increase 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. The Department 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 fiscal impact estimates for MDC's funds.

Officials from the **City of Kansas City** and the **City of Springfield** each assume the proposal could have a negative fiscal impact on their respective cities of an indeterminate amount.

Officials from the **City of O'Fallon** assume the proposal could have a negative fiscal impact on their city of about (\$25,000) per year.

Oversight notes the above local political subdivisions stated the proposal would have a negative fiscal impact on their respective subdivisions. Therefore, Oversight will note B&P's and DOR's estimate for all local political subdivisions on the fiscal note.

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

Officials from the **Department of Social Services** 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 this organization.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local taxing entities were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) 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</u> - §144.030 - Exemption of sales tax on child diapers (p. 3-8)	(\$2,602,600 - \$4,561,872)	(\$3,123,120 - \$5,474,246)	(\$3,123,120 - \$5,474,246)
Revenue Reduction - §144.030 - Exemption of sales tax on adult diapers (p. 3-8)	(\$14,273,777 - \$23,704,666)	(\$17,128,533 - \$28,445,599)	(\$17,128,533 - \$28,445,599)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	(\$16,876,377 - \$28,266,538)	(\$20,251,653 - \$33,919,845)	(\$20,251,653 - \$33,919,845)
SCHOOL DISTRICT TRUST FUND			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers (p. 3-8)	(\$867,533 – \$1,520,624)	(\$1,041,040 - \$1,824,749)	(\$1,041,040 - \$1,824,749)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers (p. 3-8)	(\$4,757,926 - \$7,901,555)	(\$5,709,511 - \$9,481,866)	(\$5,709,511 - \$9,481,866)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	(\$5,625,459 – \$9,422,179)	(\$6,750,551 - \$11,306,615)	(\$6,750,551 - \$11,306,615)
CONSERVATION COMMISSION FUND			
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on child diapers (p. 3-8)	(\$108,442 – \$190,078)	(\$130,130 - \$228,094)	(\$130,130 - \$228,094)
<u>Revenue Reduction</u> - §144.030 - Exemption of sales tax on adult diapers (p. 3-8)	(\$594,741 -\$987,694)	(\$713,689 - \$1,185,233)	(\$713,689 - \$1,185,233)

ESTIAMTED NET EFFECT ON CONSERVATION COMMISSION FUND	(\$703,183 – <u>\$1,177,772</u>)	(\$843,819 - <u>\$1,413,327</u>)	(\$843,819 - <u>\$1,413,327</u>)
PARKS AND SOILS STATE SALES TAX FUND(S)			
Revenue Reduction - §144.030 - Exemption of sales tax on child diapers (p. 3-8)	(\$86,753 – \$152,062)	(\$104,104 - \$182,475)	(\$104,104 - \$182,475)
Revenue Reduction - §144.030 - Exemption of sales tax on adult diapers (p. 3-8)	(\$475,793 – \$790,156)	(\$570,951 - \$948,187)	(\$570,951 - \$948,187)
ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUND(S)	(\$562,546 – <u>\$942,218</u>)	(\$675,055 - <u>\$1,130,662</u>)	(\$675,055 - <u>\$1,130,662</u>)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL GOVERMENT			
Revenue Reduction - §144.030 - Exemption of sales tax on child diapers (p. 3-8)	(\$3,496,159 - \$6,128,115)	(\$4,195,391 - \$7,353,738)	(\$4,195,391 - \$7,353,738)
Revenue Reduction - §144.030 - Exemption of sales tax on adult diapers (p. 3-8)	(\$19,174,441 - \$31,843,268)	(\$23,009,329 - \$38,211,921)	(\$23,009,329 - \$38,211,921)
ESTIMATED NET EFFECT ON LOCAL GOVERMENT	(\$22,670,600 - <u>\$37,971,383</u>)	(\$27,204,720 - <u>\$45,565,659</u>)	(\$27,204,720 - <u>\$45,565,659</u>)

FISCAL IMPACT – Small Business

Small businesses that buy or sell diapers will be impacted by this proposal.

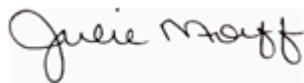
FISCAL DESCRIPTION

This proposal exempts diapers from sales tax.

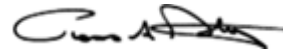
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Social Services
Missouri Department of Conservation
Department of Natural Resources
City of Kansas City
City of O'Fallon
City of Springfield



Julie Morff
Director
March 22, 2022



Ross Strobe
Assistant Director
March 22, 2022