

### Fiscal Estimate - 2019 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>19-3407/1</b>	<b>Introduction Number</b> <b>AB-0251</b>
<b>Description</b> requiring marketplace providers to collect and remit sales tax from third parties and reducing individual income tax rates based on the collection of sales and use tax from out-of-state retailers and marketplace providers	
<b>Fiscal Effect</b>	
<b>State:</b> <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input checked="" type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs	
<b>Local:</b> <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs      3. <input checked="" type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs      4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 5. Types of Local Government Units Affected <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Baseball District</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
<b>Fund Sources Affected</b> <b>Affected Ch. 20 Appropriations</b> <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	
<b>Agency/Prepared By</b> DOR/ Bradley Caruth (608) 261-8984	<b>Authorized Signature</b> Michael Oakleaf (608) 261-5173
<b>Date</b> 6/3/2019	

## Fiscal Estimate Narratives

DOR 6/3/2019

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### Assumptions Used in Arriving at Fiscal Estimate

#### REDUCTION OF INDIVIDUAL INCOME TAX RATES

Current law requires the Department of Revenue to determine the amount of additional revenue collected from the state sales and use tax from October 1, 2018, to September 30, 2019, as a result of the U.S. Supreme Court decision that expands the state's authority to collect such taxes from out-of-state retailers. After DOR makes that determination, the Department of Administration, in consultation with DOR, must then determine how much the individual income tax rates may be reduced for the 2019 taxable year in order to decrease individual income tax revenue by the amount of additional sales and use tax revenue. The reduction in rates only applies to 2019.

This bill makes the rate reductions determined for 2019 applicable to all subsequent taxable years. However, the second individual income tax rate listed in each tax bracket would change again in 2020 under the bill. The bill requires DOR to determine the amount of additional revenue collected from the sales and use tax from October 1, 2019, to September 30, 2020, as a result of the Supreme Court decision. DOA, in consultation with DOR, would then use that determination to determine how much the second individual income tax rate listed in each tax bracket may be reduced in tax year 2020 and thereafter. DOR must determine the additional sales and use tax revenue based on the sales and use taxes collected from out-of-state retailers and marketplace providers.

#### MARKETPLACE PROVIDERS

The bill also requires that "marketplace providers" collect and remit sales tax on sales facilitated on behalf of marketplace sellers. For purposes of the bill, a "marketplace provider" is a person who facilitates a retail sale by a seller by listing or advertising for sale, in any manner, the seller's products or taxable services and through agreements or arrangements with third parties, directly or indirectly, who are collecting payment from the purchaser and transmitting that payment to the seller. The bill defines "marketplace seller" to mean a seller who sells products through a physical or electronic marketplace operated by a marketplace provider, regardless of whether the seller is required to be registered with DOR.

#### FISCAL ESTIMATE

DOR estimates that the expanded state authority to collect sales and use tax from out-of-state retailers will yield approximately \$60 million during the period from October 1, 2018, to September 30, 2019. The current law individual income tax rates are 4.0%, 5.84%, 6.27%, and 7.65%. DOR expects the tax year 2019 automatic individual income tax rate cuts will reduce rates to 3.98%, 5.81%, 6.23%, and 7.61%. Because the bill makes those rate reductions permanent, that provision will reduce revenue by about \$64.7 million annually beginning in fiscal year 2021.

An additional individual income tax rate cut will begin in tax year 2020 based on growth from out-of-state retailers and new revenue from marketplace providers. DOR cannot precisely determine the impact of requiring marketplace providers to collect and remit sales tax because, 1) there is no method in place for marketplace providers to separately identify sales tax generated by their own retail sales and those generated by marketplace sellers, and, 2) the department is not able to precisely determine the amount of tax collected by a marketplace provider that was previously collected/remitted by marketplace sellers. DOR estimates that the provision will increase sales tax revenue by approximately \$60 million October 1, 2019, to September 30, 2020. Combined with approximately \$9.0 million of additional tax collections from out-of-state retailers, DOR expects to be able to offset that revenue increase by reducing the second individual income tax rate from 5.81% to 5.52% beginning in

tax year 2020.

The marketplace provision increases sales tax collections by \$60 million annually beginning on the first day of the calendar quarter that is at least three months after publication. Assuming the marketplace provision becomes effective on October 1, 2019, it will yield a fiscal year 2020 revenue gain of approximately \$45 million (\$60 million x 75% of FY20). Beginning in fiscal year 2021 the marketplace provision will increase sales tax revenue by approximately \$67.1 million, while the income tax rate cut will decrease individual income tax collections by \$69 million (60 million + \$9.0 million). The ongoing revenue loss will depend on the relative growth rates of the two revenue sources, but it will be approximately \$1.9 million in fiscal year 2021.

Overall, DOR expects the two individual income tax rate cuts and the new sales tax revenue to increase collections by \$45 million in fiscal year 2020, and decrease collections by \$66.6 million annually beginning in fiscal year 2021.

County and stadium sales and use taxes were 8.0% of state sales and use taxes in fiscal year 2018. Assuming this percentage does not change, the marketplace provision in the bill will increase county and stadium taxes by \$3.6 million in fiscal year 2020 and \$5.4 million in fiscal year 2021.

### **Long-Range Fiscal Implications**

## Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

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<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>		
<b>II. Annualized Costs:</b>		
	<b>Annualized Fiscal Impact on funds from:</b>	
	Increased Costs      Decreased Costs	
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$

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**Date**

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