

Fiscal Estimate - 2021 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 21-2850/1	Introduction Number AB-0242
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Description
 sales tax holiday for sales at certain establishments

Fiscal Effect

State:

<input type="checkbox"/> No State Fiscal Effect	<input type="checkbox"/> Increase Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<input type="checkbox"/> Indeterminate	<input checked="" type="checkbox"/> Decrease Existing Revenues	
<input type="checkbox"/> Increase Existing Appropriations		<input type="checkbox"/> Decrease Costs
<input type="checkbox"/> Decrease Existing Appropriations		
<input type="checkbox"/> Create New Appropriations		

Local:

<input type="checkbox"/> No Local Government Costs		
<input type="checkbox"/> Indeterminate		
1. <input type="checkbox"/> Increase Costs	3. <input type="checkbox"/> Increase Revenue	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>Premier Resort Area, Expo Dis</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	
2. <input type="checkbox"/> Decrease Costs	4. <input checked="" type="checkbox"/> Decrease Revenue	
<input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory	

Fund Sources Affected	Affected Ch. 20 Appropriations
<input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input checked="" type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	20.566(1)(gg),(gf),(g)

Agency/Prepared By	Authorized Signature	Date
DOR/ Travis Arthur (608) 266-8565	Ann DeGarmo (608) 266-7179	4/12/2021

Fiscal Estimate Narratives

DOR 4/12/2021

LRB Number	21-2850/1	Introduction Number	AB-0242	Estimate Type	Original
Description sales tax holiday for sales at certain establishments					

Assumptions Used in Arriving at Fiscal Estimate

The bill creates a sales tax holiday from June 1, 2021 through August 31, 2021 for the sale of tangible personal property sold at a licensed brew pub in this state or at any business that has its primary business activity in this state an activity classified under the North American Industry Classification System (NAICS) as a motion picture theater, including a drive-in theater; a tavern, restaurant, or other food service establishment; or an amusement park or arcade. The exemption also applies to the county sales and use tax, the sales tax imposed by a premier resort area, and the food and beverage tax imposed by the local exposition district.

The bill also allows an establishment that did not classify itself as an establishment engaged in the activities described in the bill to apply to the department of revenue to be classified as such an establishment for purposes of the exemption.

SALES TAX

Sales taxes reported by businesses in the covered industries totaled \$141 million in June-August of 2019. Data for 2020 was reviewed but set aside as an extreme outlier. Based on consumption projections from IHS Markit, the department assumes that sales taxes for these industries will be lower in June, July, and August of 2021 compared to 2019, by 7.8%, 3.3%, and 2.8%, respectively. The department assumes a 17.9% increase in taxable sales in the holiday period compared to the summer 2021 baseline as a result of 1) consumers shifting activity into the sales tax holiday period (assuming a half-week of sales shifted from May and September into the holiday period) and 2) a 10% increase sales reported by businesses that reclassify their NAICS codes to qualify for the holiday. The industry codes are self-reported, and some businesses may have reason to update their code to better reflect their primary activity and qualify for the sales tax holiday. It is possible that some businesses who are not primarily engaged in the activities described in the covered NAICS codes attempt to change their codes to qualify as well. The department estimates sales tax collections to decrease by about \$53 million in FY 2021 and \$106 million in FY 2022. The revenue reduction is split across fiscal years as the holiday straddles both fiscal years 2021 and 2022. In total, the holiday is expected to decrease state sales tax revenues by \$159 million on a one-time basis.

To the extent consumers shift more purchases into the sales tax holiday, the fiscal effect would increase as the otherwise taxable purchases would be exempt during the holiday. Also, to the extent the vaccine rollout and consumer confidence impact economic activity, the fiscal effect could be lower or higher than this estimate.

FOOD AND BEVERAGE TAX

Under the bill, the sales tax holiday also applies to the food and beverage tax. Based on department data along with consumption projections from IHS Markit, the department estimates food and beverage tax collections to decrease by about \$2.35 million in CY2021. The department retains a 2.55% fee to administer the food and beverage tax. Department administrative fee revenue will decrease by about \$60,000 in FY 2022 under the bill.

PREMIER RESORT AREA TAX

Under the bill, the sales tax holiday also applies to the premier resort area tax (PRAT). The department estimates the share of PRAT subject to the holiday to be 30%. The department estimates PRAT collections to decrease by about \$1.0 million under the bill. The department retains a 3.0% fee to administer the PRAT. Department administrative fee revenue will decrease by about \$30,000 in FY 2022 under the bill.

COUNTY SALES TAX

County sales taxes were about 8.3% of state sales taxes in FY 2020. Assuming the percentage does not change, county sales taxes will decrease by about \$13.3 million in CY 2021. The department retains a 1.75%

fee to administer the county sales tax. Department administrative fee revenue will decrease by about \$233,000 in FY 2022 under the bill.

ADMINISTRATIVE COSTS

The department estimates one-time administrative costs of \$24,000 for updating and testing the state's tax processing system along with training and communication activities. In addition, the department estimates ongoing costs of \$43,000 to handle audit activities associated with the sales tax holiday.

The department cannot absorb the administrative costs.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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Description sales tax holiday for sales at certain establishments		
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):		
II. Annualized Costs:		
	Annualized Fiscal Impact on funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$See Text	\$See Text
Agency/Prepared By		
Authorized Signature		Date
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		4/12/2021