

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 43** HLS 161ES 76
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|---------------------------------------------------|--------------------------------|
| Date: February 16, 2016 6:40 PM | Author: WHITE, MALINDA |
| Dept./Agy.: Revenue | |
| Subject: Cap on Vendor Compensation claims | Analyst: Deborah Vivien |

TAX/SALES & USE OR +\$8,000,000 GF RV See Note Page 1 of 1
 Provides for the amount of vendors compensation authorized as compensation for the collection and remittance of state sales and use taxes (Item #21)

Current law allows dealer collecting sales tax on behalf of the state to retain 0.935% of taxes collected as compensation for timely remittance. There is no limit to th total amount of vendor compensation that may be received.

Proposed law retains current law but caps the annual vendor compensation payment at \$1,000 per month per dealer with one or more business locations in the state. The bill is effective on April 1, 2016.

| EXPENDITURES | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> | <u>5 -YEAR TOTAL</u> |
|---------------------|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
| State Gen. Fd. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| REVENUES | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> | <u>2019-20</u> | <u>2020-21</u> | <u>5 -YEAR TOTAL</u> |
| State Gen. Fd. | \$8,000,000 | \$8,000,000 | \$8,000,000 | \$8,000,000 | \$8,000,000 | \$40,000,000 |
| Agy. Self-Gen. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Ded./Other | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Federal Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Local Funds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Annual Total | \$8,000,000 | \$8,000,000 | \$8,000,000 | \$8,000,000 | \$8,000,000 | \$40,000,000 |

EXPENDITURE EXPLANATION

The Department of Revenue indicates that implementation costs could be significant but will be absorbed in the current budget. The Office of Motor Vehicles also indicates significant costs will be involved given the structure of the current system.

REVENUE EXPLANATION

According to the Department of Revenue, in FY15, 267 corporate entities acted as dealers on behalf of the state and each retained more than \$12,000 per year in vendor compensation. The total annual amount of vendor compensation less \$12,000 for each of these vendors is approximately \$8M, which is the estimated increase in net state sales tax receipts resulting from this bill. The bill is effective April 1, 2016, allowing 3 months of increased net receipts in FY 16, estimated at \$2M.

Though the cap is imposed on a monthly basis, the fiscal note estimate is based on annual totals, and assumes relatively even or average monthly claims.

A vendor's compensation payment of \$12,000 is associated with about \$32M in annual sales and \$1.3M in sales tax remittances. In interpreting this bill, the Department allowed one vendor compensation payment of \$12,000 per business entity, not per location and set the limit based on an annual total instead of a monthly maximum due to time limitations.

Vendor compensation analysis has typically not included motor vehicle sales tax. Total vendor compensation for vehicle dealers under current law would be approximately \$2 million per year. To the extent the cap imposed by this bill is applied to vehicles dealers, some additional net revenue gain to the state would occur.

The bill as written appears to exclude remote sellers collecting on behalf of the state from any vendor compensation payment. This appears to be unintended and the fiscal note does not include a value for this component.

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|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|--------------|
| <u>Senate</u> | <u>Dual Referral Rules</u> | <u>House</u> |
| <input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} | <input type="checkbox"/> 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S} | |
| <input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H} | <input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S} | |

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