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F I S C A L I M P A C T R E P O R T

SPONSOR:	Vanderstar-Russell	DATE TYPED:	02/11/00	HB	255
SHORT TITLE:	Definition of "Place of Business"			SB	
				ANALYST:	Eaton

REVENUE

Estimated Revenue		**Subsequent Years Impact**	**Recurring or Non-Rec**	**Fund Affected**
FY00	**FY01**			
	$ (680.0)		Recurring	General Fund
	$ (80.0)		Recurring	County Funds
	$ 940.0		Recurring	Municipal Funds
	$+- 420.0		Recurring	Muni. "Switches"

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

This bill provides that the reporting location for gross receipts tax purposes from receipts from sales of services to municipalities is the municipality that is paying for the services. This means that one municipality does not contribute to the gross receipts tax distribution of another. It also means that the state will subsidize municipal budgets to a greater extent than under current practice.

FISCAL IMPLICATIONS

The complex fiscal results of the bill derives from the interior detail of the Gross Receipts and Compensating Tax Act and its accompanying local option taxes. The state tax loss is created when services sold to municipalities which are currently reported to an out-of-state or remainder of county location "switch" to being reported to the municipal location. 24% of all services are currently reported to non-municipal locations. At the same time, the county rate in remainder areas is lower than for sales reported to locations. In addition to increased taxes on taxpayers, greater state-shared taxes to municipalities and lower county taxes, there will be some switching and churning between municipalities. As a general rule, this churning will transfer tax revenue from larger municipalities to smaller municipalities. The amount of non-construction, contractual services is a large unknown. Excluding public school support and Medicaid match, the FY 1999 state budget allocated 12.5% of all general fund and OSF funds for "contractual services". There were other allocations that were variously classified that were contract services. Using this 12.5%, however, as a surrogate for contractual spending by municipalities applied to an estimated $700 million in municipal general fund spending and a smaller percentage for all the other $2.8 billion in municipal disbursements, leads to the estimate of almost $189 million in municipal contractual services to which this bill applies. Construction services are already reported to the municipality or other location of the project.

OTHER SUBSTANTIVE ISSUES

The following table and information was provided by the Taxation and Revenue Department.

Estimated "Contractual Services"		178,500,000
Ratio of Non-Muni to Total		24.10%
Assume that 24% will switch from county to city		43,000,000
State Tax Loss (.05 - .03275)	1.73%	742,000
County Tax Loss	0.30%	89,000
Assume city local option rate	2.48%	
Muni Gain		1,027,000
Net Tax Increase		196,000
Assume that 10% will switch from one city to another		17,850,000
Assume city rate	2.48%	
Amount switching		426,000

1. When the location of real estate commissions was changed from the business location to the location of the land or building, TRD published a "no fiscal impact" estimate. Subsequent analysis has shown that the state gained a windfall of 328 thousand, while counties gained about 30 thousand and municipalities lost a whopping $3.5 million. In addition, there was a good deal of shifting between municipalities, probably on the order of $500 thousand.

2. Simplicity in a tax system is a very good thing. The gross receipts tax relies on a basic, simple rule to determine what tax rate applies: the applicable rate is the rate in effect at the vendor's business location. There are few exceptions. To avoid crippling complexity, additional exceptions, such as that proposed here, should resolve major issues.

JE/njw