

Sales and Use Tax

The Missouri sales tax became effective January 15, 1934. The tax rate was one-half percent. The Missouri use tax was enacted effective August 29, 1959. The use tax is an equivalent tax to the sales tax, imposed on the privilege of using, consuming or storing property purchased in another state.

In 1965, the sales tax statutes were revised to change the tax from an excise tax imposed upon the purchaser to a gross receipts tax imposed upon the seller. The sales tax is considered to be a levy on the privilege of making retail sales. The value of this privilege is measured by the gross receipts from the retail sales of tangible personal property and certain services within Missouri. Sales of property and services to Missouri residents from other states are not currently taxed, unless the vendor use tax is applicable.

Appendix II contains a historical summary of sales tax rates. The tax expenditures for sales and use taxes detailed in the study are calculated using a tax rate of 3 percent, which is the current General Revenue Fund levy. As a consequence, they do not reflect the temporary rate increase during 1989 and 1990. The impact on other state fund revenues that are financed by this tax source have not been tabulated. They would, however, be proportional to their respective tax rates.

The sales and use tax as defined by Chapter 144, RSMo, 1986 and 1993 Supplement, is imposed on gross receipts that generally include the sale at retail of or charges for:

- (1) tangible personal property;
- (2) admissions to places of amusement, entertainment and recreation, games and athletic events;
- (3) utilities, including telecommunication service;
- (4) meals, beverages and lodging in public accommodations;
- (5) intrastate transportation; and
- (6) rental of tangible personal property.

The "sale at retail" for purposes of the Missouri sales tax law is defined as an installment sale, credit sale, transfer, exchange or barter of tangible personal property or taxable service for valuable consideration.

Exempt sales fall into three broad categories:

- (1) those made by or to tax exempt organizations,
- (2) sales for further resale and
- (3) selected services and commodities.

The first set consists of a variety of nonprofit organizations including religious, charitable, educational and fraternal organizations (see Exhibit 8). These organizations are also exempt from the corporation income tax.

The provisions of the second category exempts the sale of commodities that are intended for further resale. This provision is intended to eliminate the "tax on a tax" or cascade effect on firms selling intermediate products.

| Sales and Use Tax by Calendar Year | | | |
|--|-------------|-------------|-------------|
| 2008 Rank of portion of gross receipts: 2 | | | |
| 2008 Tax Rate: General Fund—3.0% | | | |
| Other*—1.225% | | | |
| | 2006 | 2007 | 2008 |
| Gross Receipts | | | |
| General Fund | 1,944.0 | 1,996.4 | 1,946.1 |
| Other* | NA | NA | NA |
| Tax Expenditures | | | |
| Exclusions | 2,469.0 | 2,629.8 | 2,802.7 |
| Deductions | 0.0 | 0.00 | 0.00 |
| Credits | 40.9 | 41.8 | 40.0 |

*Figures in millions of dollars; *Includes School District Fund.*

The final group of exempt sales consists of services and commodities that receive specific preferential treatment. These exemptions may be categorized into one of two types of sales. The first is export sales—retail sales shipped to another state. These are excluded because of current federal statutes. The second, and by far largest category, includes most consumer services that were tacitly excluded from the Missouri sales tax statute. Among these are:

- Household maintenance & repair services
- Housekeeping services
- Apparel services
- Vehicle maintenance & repair services
- Medical services
- Personal care services
- Other personal and educational services

Exhibit 10 contains estimates of the revenue effects of sales and use tax exemptions.

Readers will notice that this list is far more pervasive than the exemptions contained in current Missouri statutes. This is the result of the implicit definition of taxable services. The latter places a very narrow definition on such activities. As a result, such services as medical care, legal representation, personal care, and college tuition are not subject to the tax. Exhibit 10, however, includes estimates of the revenues such activities would generate.

Exhibit 8 Tax-Exempt Organizations as of October 2008

| Section of Internal Revenue Code (if applicable) and Statute Reference | Description of Tax-Exempt Organization | Description of Exemption | Number of Organizations |
|---|--|--|-------------------------|
| IRC 501(c)(3) Section 144.030.2(19) | Religious Example: Churches | Sales made by or to such organizations solely in their religious, charitable or educational function | 13,708 |
| IRC 501 (c)(3) Section 144.030.2(19) | Charitable Example: American Heart Association | Sales made by or to such organizations solely in their religious, charitable or educational function | 6,253 |
| IRC 501 (c)(3) Section 144.030.2(19) | Educational (elementary and secondary public schools) (Also see political subdivisions) | Sales made by or to such organizations solely in their educational functions and activities | 1,657 |
| IRC 501(c)(4) IRC 501(c)(7) IRC 501(c)(8) IRC 501 (c)(10) Section 144.030.2(20) | Civic, social and fraternal (promotion of community, welfare; charitable, educational or recreational) | Sales made by or to such organizations solely in their civic or charitable functions and activities | 7,028 |
| Section 144.030.2(20) | Eleemosynary and penal institutions and industries of the state Example: State penitentiary produces license plates | Sales made to | NA |
| Section 144.030.2(20) | Not-for-profit institution of higher education | Sales made to | 469 |
| Section 144.030.2(20) | State relief agencies in their exercise of relief functions | Sales made to | NA |
| Section 144.030.2(20) | Private not-for-profit elementary or secondary schools not excluded elsewhere | Sales made to | 128 NA |
| IRC 501(c)(5) Section 144.030.2(21) | Benevolent, scientific and educational associations encouraging science of agriculture | Sales made by | NA |
| IRC 501(c)(5) Section 144.030.2(21) | Not-for-profit summer theatre organizations | Sales made by | see next line |
| Section 144.010 Section 144.030 | U.S. government and agencies | Sales made to | 4,554 |
| Section 144.010 Section 144.030 | Missouri political subdivisions (political & federal government) | Sales made to | 77 |
| Section 144.010 Section 144.030 | State of Missouri | Sales made to | NA |
| Section 144.270 | Rural water districts | Sales made to | NA |
| Section 144.010 Section 144.030 | Non-appropriated activities of military service | Sales made to | |

NA - Not available

Exhibit 9 Derivation of Missouri Taxable Sales—Sales Tax

Gross Receipts or Sales

less

Adjustments

equals

Taxable Sales

equals

Gross Amount Tax Due

less

Credits

equals

Net Amount of Tax Due

- Sales for resale
- Value of trade-in
- Goods shipped out of Missouri
- Food for home consumption
- Motor fuel, special fuel, other fuel
- Government, religious, educational, charitable institutions
- Drugs, oxygen, insulin, prosthetic or orthopedic devices
- Farm machinery
- Water, electricity, gas, wood, coal or home heating oil
- Seed, fertilizer, grain, economic poisons, livestock/poultry feed
- Labor or service charges when separately billed
- Other adjustments

Multiplied by effective tax rate

Timely payment discount

✓ - Tax expenditure

This table has been produced by
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Exhibit 10 Sales and Use Tax Expenditures 2003-2013

| | 2003 ^R | 2004 ^R | 2005 ^R | 2006 ^R | 2007 ^F | 2008 ^F | 2009 ^F | 2010 ^F | 2011 ^F | 2012 ^F | 2013 ^F |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Personal Exemptions | | | | | | | | | | | |
| Non-Durable Commodities | | | | | | | | | | | |
| B.01 Drugs and Medical Commodities | 131.7 | 142.3 | 149.9 | 161.9 | 168.5 | 179.5 | 184.9 | 190.3 | 195.6 | 201.0 | 206.3 |
| Prescription Drugs | 16.7 | 17.0 | 18.1 | 19.6 | 21.2 | 22.2 | 22.7 | 23.3 | 23.8 | 24.3 | 24.8 |
| Nonprescription Drugs | 174.7 | 214.0 | 262.0 | 292.7 | 377.9 | 363.8 | 349.1 | 335.0 | 321.5 | 308.6 | 296.1 |
| B.07 Motor Fuel* | 10.4 | 11.0 | 11.6 | 12.5 | 13.5 | 14.2 | 14.6 | 15.0 | 15.3 | 15.7 | 16.1 |
| B.28 Lottery Tickets | 196.0 | 181.2 | 200.9 | 181.1 | 186.2 | 197.9 | 204.1 | 210.4 | 216.9 | 223.6 | 230.6 |
| B.31 Food for Home Consumption | 3.1 | 2.9 | 3.5 | 3.6 | 3.6 | 3.8 | 3.9 | 4.1 | 4.2 | 4.3 | 4.5 |
| B.32 Textbooks | | | | | | | | | | | |
| Services | | | | | | | | | | | |
| B.04 Domestic Utilities | 135.1 | 141.7 | 157.4 | 167.1 | 175.0 | 183.8 | 188.1 | 192.4 | 196.7 | 201.0 | 205.3 |
| A.03a Household Maintenance/Repair | 34.9 | 37.7 | 40.1 | 41.7 | 43.4 | 45.3 | 46.5 | 47.6 | 48.7 | 49.9 | 51.1 |
| A.03b Housekeeping | 11.1 | 11.7 | 12.0 | 12.7 | 13.5 | 14.0 | 14.4 | 14.7 | 15.0 | 15.3 | 15.6 |
| A.03c Apparel | 9.1 | 9.3 | 9.6 | 10.2 | 10.3 | 10.6 | 10.8 | 11.0 | 11.2 | 11.4 | 11.7 |
| A.03d Vehicle Maintenance/Repair | 44.0 | 45.6 | 47.3 | 49.9 | 52.1 | 54.3 | 55.7 | 57.1 | 58.5 | 59.8 | 61.2 |
| B.05 Transportation Fares | 33.4 | 35.4 | 36.9 | 38.6 | 39.6 | 40.9 | 41.8 | 42.7 | 43.6 | 44.5 | 45.4 |
| A.03e Medical Care | 712.6 | 759.6 | 810.0 | 857.4 | 916.7 | 968.3 | 994.0 | 1,019.7 | 1,045.4 | 1,071.0 | 1,096.7 |
| A.03f Personal Care | 50.6 | 55.9 | 59.7 | 62.1 | 64.3 | 67.6 | 69.5 | 71.3 | 73.2 | 75.1 | 76.9 |
| A.03g Other Personal & Educational | 457.7 | 494.3 | 523.4 | 553.1 | 599.0 | 631.4 | 647.9 | 666.4 | 680.8 | 697.2 | 713.7 |
| Miscellaneous | | | | | | | | | | | |
| A.01 Isolated/Occasional Sales | 4.4 | 4.4 | 4.6 | 4.8 | 5.0 | 5.1 | 5.3 | 5.4 | 5.6 | 5.8 | 5.9 |
| B.23 Handicraft Items/Senior Citizen | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Business Exemptions | | | | | | | | | | | |
| Agriculture | | | | | | | | | | | |
| B.08 Fuel Used for Drying Crops | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.09 Agricultural Diesel Fuel | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.10 Farm Machinery and Equipment | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.11 Repair Farm Machinery | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.12 Baling Wire, Baling Twine | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.13-14 Feed, Seed, Fertilizer, Pesticides, Etc. | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Mining and Manufacturing | | | | | | | | | | | |
| B.16 Replacement Machinery | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.17 New or Expanded Plant | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |

Figures in millions of dollars; * = Applies to General Revenue Funds Only NA = Not available; x = Not applicable; • = Less than \$50,000 (Excludes Business Sales)
P = Preliminary numbers ; F = Forecasted numbers; R = Revised numbers

Exhibit 10 (continued)
Sales and Use Tax Expenditures
2003-2013

| | 2003 ^R | 2004 ^R | 2005 ^R | 2006 ^R | 2007 ^P | 2008 ^F | 2009 ^F | 2010 ^F | 2011 ^F | 2012 ^F | 2013 ^F |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Mining and Manufacturing | | | | | | | | | | | |
| B.22 Pollution Control Equipment | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.24 Anodes | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.26 Electric and Gas for Steel & Cellular Glass | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.33 Drug Research and Development | * | * | * | * | * | * | * | * | * | * | * |
| Transportation and Utilities | | | | | | | | | | | |
| A.04 Delivery Charges | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.15 Common Carriers—Replacement Parts | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.19 Pipeline Pumping Equipment | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.20 Railroad Rolling Stock | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.27 Barge Fuel | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Other | | | | | | | | | | | |
| A.06 Custom Design Software | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| A.07 Advertising | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.06 Government Suppliers and Contractors | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.25 Fees Paid to a Municipality | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.29 Bingo Equipment | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| B.30 Tax Exempt Institutions | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Credits | | | | | | | | | | | |
| C.01 Timely Payment | 37.3 | 39.1 | 38.5 | 40.9 | 41.8 | 40.0 | 41.2 | 42.5 | 43.8 | 45.2 | 46.6 |

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P = Preliminary numbers ; F = Forecasted numbers; R = Revised numbers