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## Why Missouri Should Continue Local Vehicle Sales Tax Collections

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State lawmakers will be returning to the Capitol for their annual “veto session” next week. Among the important issues they will consider is the Governor’s veto of House Bill 1329. The measure clarified existing sales tax law as it applies to vehicle sales, ensuring equal application of state and local taxes on all vehicles registered in Missouri, even if the vehicles were purchased in another state.

If the veto of House Bill 1329 is sustained during the session next week, **localities across Missouri will lose nearly \$31 million in local tax revenue**, compromising local services, and Missouri’s auto dealers would face a significant competitive disadvantage against out-of-state dealers.<sup>1</sup>

### Background

Missourians pay state and local sales taxes when they register a newly purchased vehicle or boat in the state. For multiple decades the sales tax has been applied regardless of where the vehicle was purchased. However, a January ruling of the Missouri Supreme Court stated that existing state law did not clearly compel the local sales tax to be applied on vehicles that were purchased outside of the state of Missouri, unless a locality had approved a Use Tax.

In response to the Court ruling, the Missouri Legislature passed House Bill 1329 to clarify the existing sales tax statute to ensure that local sales tax on vehicles would continue to be applied consistently, regardless of the point of sale. The Governor vetoed the measure.

### House Bill 1329 Fosters Stability for Local Services

Missouri localities and counties depend significantly on sales tax revenue that is generated from vehicle sales to provide critical local services including public safety and transportation. In tax year 2011, local sales tax on vehicles generated approximately \$213 million for local services. The Missouri Department of Revenue estimates that if the veto of House Bill 1329 stands, Missouri Counties will lose nearly \$31 million in annual revenue. Nearly every county is impacted, and more than 750 political subdivisions stand to lose about 21 percent of the sales tax revenue that they collect on motor vehicle sales. Some examples:

- Saint Louis County would lose \$6.7 million
- Jackson County would lose \$1.8 million
- Columbia would lose \$567,983
- Jefferson City would lose \$239,171
- Joplin would lose \$431,600
- Greene County would lose \$883,041

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<sup>1</sup> Data on the impact to local sales tax collections is from the Missouri Department of Revenue.

- Mississippi County would lose \$73,924
- St. Genevieve would lose \$118,249
- New Madrid would lose \$69,016

These are just a few examples of the known local impact.

## **House Bill 1329 Ensures a Level Playing Field**

Almost immediately following the Court's ruling, out-of-state car dealers began advertising to Missouri consumers. The advertisements focused on the savings that consumers could have by purchasing a vehicle out-of-state and avoiding local sales tax.<sup>2</sup> House Bill 1329 would ensure a level playing field between Missouri's car dealers and out-of-state vendors by ensuring equal treatment of local sales taxes regardless of the point of purchase.

## **Application of the Law**

Questions have been raised about whether or not the legislation is legally binding and if it would apply retroactively to purchases. Two clear responses to these questions make the case for enactment of House Bill 1329 even stronger:

Vehicle purchases are unique in Missouri because they have always been subject to tax based on the residence of the purchaser, not the location of the seller. House Bill 1329 clarifies that the way sales taxes have applied to vehicles is indeed the way that was intended by law.

Further, there is some concern that Missourians who purchased vehicles following March 21<sup>st</sup> of this year, who did not pay local sales tax at the time of registration due to the Court ruling, would be required to remit local sales taxes retroactively. However, House Bill 1329 clearly states that the sales tax would be applied to the maximum extent permissible by law. With the inclusion of that wording, the legislation leaves room for the administration to determine whether or not retroactive collection is actually permissible under the law.

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<sup>2</sup> St. Louis Post Dispatch, "Missouri Senate moves to reinstate sales tax on out-of-state car purchases", May 16, 2012, [http://www.stltoday.com/news/local/govt-and-politics/political-fix/missouri-senate-moves-to-reinstate-sales-tax-on-out-of/article\\_4e5484c0-9f81-11e1-b244-0019bb30f31a.html](http://www.stltoday.com/news/local/govt-and-politics/political-fix/missouri-senate-moves-to-reinstate-sales-tax-on-out-of/article_4e5484c0-9f81-11e1-b244-0019bb30f31a.html)