

The seal of the Missouri State Auditor is circular and features a central figure holding a scale and a sword. The text around the seal reads "SEAL OF THE STATE AUDITOR" at the top, "JUSTICE WE STAND DIVIDED" in the middle, and "1820 MISSOURI 1892" at the bottom.

# Nicole Galloway, CPA

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Missouri State Auditor

Department of Revenue

Sales and Use Tax

Report No. 2019-067

August 2019

[auditor.mo.gov](http://auditor.mo.gov)



**Nicole Galloway, CPA**  
Missouri State Auditor

# CITIZENS SUMMARY

## Findings in the audit of the Department of Revenue Sales and Use Tax

Sales and use tax exemptions	The Department of Revenue (DOR) does not adequately capture and track information regarding some sales and use tax exemptions. According to DOR records, as of June 30, 2018, state law provided for 214 sales and use tax exemptions. The DOR only tracks the 3 percent state general revenue sales tax reduction on food sales, the textbook sales tax exemption, and the manufacturing sales tax exemption.
Timely sales and use tax discounts	State laws allowing retailers to retain a portion of sales and use taxes collected if they remit the taxes to the DOR timely result in the state and local governments forgoing significant revenues. Missouri's timely sales and use tax discount is the second most generous discount in the nation and significantly benefits the state's largest retailers. Changing state law to include a monthly cap on the amount of timely discount eligible to be retained would significantly increase state and local revenues. The DOR is not required to report, and does not routinely report the amount of timely discounts retained by businesses to the General Assembly, local governments impacted, or the general public.
Internet Sales	The General Assembly has not passed legislation to allow Missouri to charge tax on online purchases made from out-of-state sellers or to participate in the Streamlined Sales and Use Tax Agreement (SSUTA), costing the state millions in potential sales tax revenue. With the increasing popularity and usage of online shopping, e-commerce sales have grown significantly in recent years. The SSUTA, adopted in November 2002, is a cooperative effort among states, local governments, and businesses to simplify and make more uniform the sales and use tax collection and administration for retailers and states. Bills introduced in Missouri during the 2019 legislative session to expand the collection of taxes on internet sales failed to become law.

In the areas audited, the overall performance of this entity was **Good**.\*

\*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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# Department of Revenue

## Sales and Use Tax

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## **NICOLE GALLOWAY, CPA** **Missouri State Auditor**

Honorable Michael L. Parson, Governor  
and  
Members of the General Assembly  
and  
Kenneth J. Zellers, Acting Director  
Department of Revenue  
Jefferson City, Missouri

We have audited certain operations of the Department of Revenue, sales and use tax collections, as required by Section 32.087, RSMo, and in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2018. The objectives of our audit were to:

1. Evaluate the department's internal controls over significant management and financial functions.
2. Evaluate the department's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

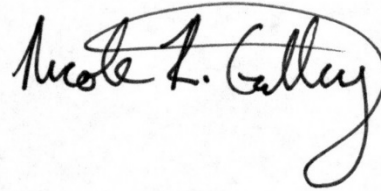
Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the department, as well as certain external parties; analysis of comparative data obtained from internal sources; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

Except as discussed in the following paragraph, we conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

*Government Auditing Standards* require us to obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the audit report. Due to the nature of this report, and due to the findings being legislative in nature, we were unable to obtain views of responsible officials for the findings, conclusions, and recommendations outlined in the Management Advisory Report. The views of responsible Department of Revenue officials were obtained and included where appropriate.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the department's management and was not subjected to the procedures applied in our audit of the department.

For the areas audited, we identified (1) no significant deficiencies in internal controls, (2) no significant noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our finding arising from our audit of the Department of Revenue, sales and use tax collections.

A handwritten signature in black ink that reads "Nicole R. Galloway". The signature is written in a cursive style with a large loop at the end of the last name.

Nicole R. Galloway, CPA  
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Robert E. Showers, CPA, CGAP
Audit Manager:	Robyn Vogt, M.Acct., CPA
In-Charge Auditor:	Shelbi M. Becker
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# Department of Revenue

## Sales and Use Tax

### Introduction

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#### **Background**

The state's sales tax is imposed on the purchase price of tangible personal property or taxable service sold at retail. Use tax is imposed on the storage, use, or consumption of tangible personal property in this state. Cities and counties may impose a local sales and use tax. Special taxing districts (such as fire districts) may also impose additional sales taxes. State and local sales and use taxes are collected by the Department of Revenue (DOR). The DOR then distributes the local sales and use taxes to the cities, counties, and districts.

Sales and use tax receipts collected from businesses and motor vehicle sales tax receipts collected from businesses and individuals are deposited into various state and local funds. Marine and ATV sales and use tax collections are deposited into the same funds as state sales and use tax. Motor vehicle leasing sales tax collections are deposited into the same funds as motor vehicle sales tax.

For operating purposes, the DOR has been charged with the responsibility of administering transactions in the following funds and accounts.

#### **State Funds**

The State Treasurer, as fund custodian, and the Office of Administration provide administrative control over fund resources within the authority prescribed by the General Assembly for all state funds.

General Revenue Fund: This fund, authorized by Section 144.700, RSMo, receives collections from a general 3 percent state sales and use tax. State sales tax is collected pursuant to Section 144.020, RSMo, and state use tax is collected pursuant to Section 144.610, RSMo. Retail sales of food are not subject to the 3 percent tax as provided by Section 144.014, RSMo. This fund also receives payments from common carriers in interstate air transportation, as authorized by Section 144.807, RSMo. In addition, the General Revenue Fund pays all motor vehicle sales tax refunds and receives motor vehicle sales tax collections as reimbursement from other state funds for their applicable share of the refunds.

Aviation Trust Fund: This fund, authorized by Section 144.805, RSMo, receives collection from a sales and use tax on aviation jet fuel from common carriers. These taxes are paid as a result of exemptions to General Revenue sales tax. The exemptions are a result of direct-pay agreements between common carriers and the DOR.

Conservation Commission Fund: This fund, authorized by Section 254.020, RSMo, receives collections of the 0.125 percent state sales and use tax, motor vehicle sales tax, and highway use tax provided for in Article IV, Section 43(a), Missouri Constitution.



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State Highways and Transportation Department Fund: This fund received 75 percent of the collections from the 4 percent highway use tax during fiscal years 2013 and 2012. Effective July 5, 2013, the highway use tax was repealed and all motor vehicle transactions are now assessed a sales tax as authorized by Section 144.020, RSMo, which goes into the State Road Fund and the State Road Bond Fund. This fund continues to receive some residual highway use tax collections.

Parks Sales Tax Fund: This fund, authorized by Article IV, Section 47(a) and 47(b), Missouri Constitution, receives 50 percent of the collections from a 0.1 percent state sales and use tax, motor vehicle sales tax, and highway use tax.

School District Trust Fund: This fund, authorized by Section 144.701, RSMo, receives collections from a 1 percent state sales and use tax pursuant to Section 144.701, RSMo. Retail sales of food are subject to a 1 percent tax to be deposited into this fund as provided by Section 144.014, RSMo. In addition, this fund receives 12.5 percent of collections from the 4 percent motor vehicle sales tax pursuant to Article IV, Section 30(b)2, Missouri Constitution.

Soil and Water Sales Tax Fund: This fund, authorized by Article IV, Section 47(a) and 47(b), Missouri Constitution, receives 50 percent of the collections from a 0.1 percent state sales and use tax, motor vehicle sales tax, and highway use tax.

State Road Bond Fund: This fund, authorized by Article IV, Section 30(b), Missouri Constitution (Amendment 3), receives 37.5 percent of the collections from the 4 percent motor vehicle sales tax.

State Road Fund and State Transportation Fund: These funds, authorized by Article IV, Section 30(b), Missouri Constitution, receive 37.5 percent of the collections from the 4 percent motor vehicle sales tax, which is deposited 36.5 percent to the State Road Fund and 1 percent to the State Transportation Fund.

### **Local Funds**

Actual tax proceeds for local funds are deposited into interest-bearing bank accounts until distributed. Subsequently 99 percent of the collections and earned interest are distributed to the various political subdivisions with the remaining 1 percent going to the General Revenue Fund for a collection fee, except for the Local Fuel Tax and Bond Trust Fund, which has no collection fee withheld from distributions to the fund. The DOR has sole responsibility for maintaining and disbursing fund resources for all local funds.

Local Fuel Tax and Bond Trust Fund: This fund, authorized by Article IV, Section 30(b), Missouri Constitution, receives 12.5 percent of the collections from the 4 percent motor vehicle sales tax. In addition, this fund receives collections from the motor fuel tax authorized by Section 142.803, RSMo.



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Local Sales and Use Tax Trust Fund: This fund receives collections generated from local sales taxes imposed by local political subdivisions, as authorized by Chapters 66, 67, 70, 92, 94, 162, 190, 238, 321, and 644, RSMo. In addition, this fund receives collections generated by a use tax, authorized by Section 144.757, RSMo, based on the local sales tax in effect, upon all transactions subject to taxes imposed under Sections 144.600 to 144.745, RSMo, except as otherwise provided. Net taxes and interest are subsequently distributed to the counties and cities.

**Custodial Accounts**

The DOR has been charged with the responsibility of administering transactions in the custodial accounts. Except for the Protested Sales Tax General Revenue Account and Sales Tax Bond Account held by the State Treasurer, actual custody of the resources in the accounts rests with the DOR. Collections for the custodial accounts held by the DOR are deposited in interest-bearing bank accounts.

Compliance Clearing Account: This account receives tax payments from taxpayer audits. The DOR holds these payments in this account pending final audit review. Depending on the results of the audit review, the DOR transfers the tax payment to the appropriate state and local funds or issues a refund to the taxpayer.

Motor Vehicle Clearing Account: This account receives collections from motor vehicle agent offices and the central office for various taxes and fees. These receipts are subsequently transferred to various state and local funds.

Protested Sales Tax General Revenue Account: This account receives the 4.225 percent state portion of sales taxes paid under protest. These payments are deposited in the General Revenue Fund and reported by the DOR in this account.

Sales Tax Bond Account: The DOR receives cash bonds posted by taxpayers as authorized by Section 144.087, RSMo. All bond collections are deposited in the General Revenue Fund and reported by the DOR in this account. Cash bonds and related interest are to be refunded to the taxpayer after 1 year if the taxpayer is determined to have satisfactory tax compliance and if the bond was posted before January 1, 1984. If the bond was posted on or after January 1, 1984, the Attorney General has determined that no interest should be refunded. In the event of uncollectible sales tax liabilities, the bonds and related interest, if any, are forfeited to the DOR. The department subsequently distributes the monies to the state and the appropriate political subdivisions.



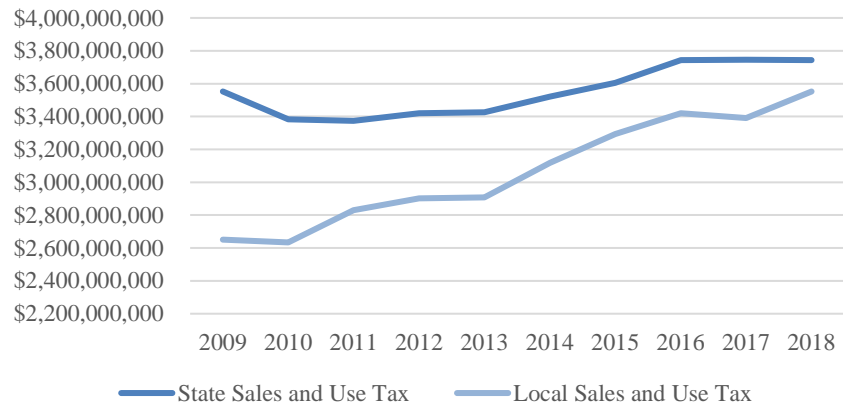


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Historical sales and use tax trends and information

As shown in Figure 1, when adjusted for inflation, state and local sales and use tax collections have increased for most years between fiscal year 2009 and fiscal year 2018. Adjusted state sales and use tax collections increased from \$3.55 billion to \$3.74 billion (5 percent), while adjusted local sales and use tax collections increased from \$2.65 billion to \$3.55 billion (34 percent) during this time period.

Figure 1: State and local sales and use tax collections, 2009-2018, by fiscal year, adjusted for inflation



Source: DOR records, SAO analysis of Consumer Price Index data from <https://fred.stlouisfed.org/series/CPIAUCSL>, and Appendix G.

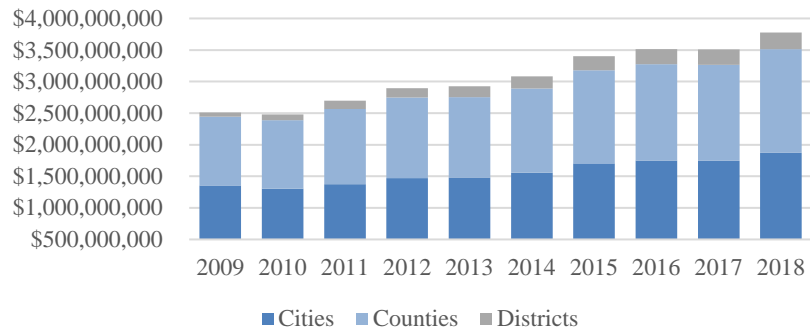
The state sales and use tax rate has remained at 4.225 percent during these 10 years. In comparison, local sales and use tax rates imposed by local political subdivisions are continuously changing as local taxing jurisdictions impose new tax rates and others expire. In addition, the increasing number of districts has contributed to the total increase in local sales tax collections. The total number of districts increased from approximately 170 in fiscal year 2009 to approximately 620 in fiscal year 2018 (265 percent).



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Local sales and use tax collections are distributed by the DOR to cities, counties, and districts. As shown above in Figure 1, and as further illustrated in Figure 2, local sales and use tax collections and subsequent distributions have increased for most years between fiscal year 2009 and fiscal year 2018.<sup>1</sup>

Figure 2: Local sales and use tax distributions by political subdivision type, 2009-2018, by fiscal year



Source: Appendix H

<sup>1</sup> For more detail on local sales and use tax distribution amounts, see Appendix H.

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# Department of Revenue

## Sales and Use Tax

### Management Advisory Report - State Auditor's Findings

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#### **1. Ongoing Sales and Use Tax Issues**

Several previous audit reports<sup>2</sup> have included concerns and recommendations relating to sales and use tax exemptions, timely sales and use tax discounts, and internet sales. These sales and use tax issues continue to be ongoing concerns.

##### 1.1 Sales and use tax exemptions

The Department of Revenue (DOR) does not adequately capture and track information regarding some sales and use tax exemptions. As a result, the fiscal impact of each exemption and the cumulative fiscal impact of all exemptions on state and local revenues cannot be determined.

According to DOR records, as of June 30, 2018, state law provided for 214 sales and use tax exemptions. The DOR only tracks the 3 percent state general revenue sales tax reduction on food sales, the textbook sales tax exemption, and the manufacturing sales tax exemption.

Vendors remit monthly, quarterly, or annual sales and use tax returns to the DOR. The returns include gross sales receipts, adjustments to gross sales receipts, and taxable sales. The adjustment amounts include, but are not limited to, exempt sales for the period of the sales tax return (filing period), and corrections of errors from previous filing periods.

The DOR has responded in previous audits<sup>2</sup> that reporting exemptions would substantially increase the burden on businesses and based on prior attempts to track limited exemptions, the data collected is likely to be highly inaccurate due to reporting errors by businesses. However, by not requiring businesses to track these adjustments, the DOR is unable to determine the cost of the various sales tax exemptions. Without this information the legislature cannot make informed decisions regarding the effectiveness and cost of the various exemptions.

##### 1.2 Timely sales and use tax discounts

State laws allowing retailers to retain a portion of sales and use taxes collected if they remit the taxes to the DOR timely result in the state and local governments forgoing significant revenues. Missouri's timely sales and use tax discount is among the most generous such discounts in the nation, and significantly benefits the state's largest retailers. In addition, the DOR does not routinely report to the General Assembly (GA) the amount of timely sales and use tax discounts retained by businesses.

##### Generous discounts

Missouri's timely sales and use tax discount is the second most generous discount in the nation.<sup>3</sup> Sections 144.140 and 144.710, RSMo, allow

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<sup>2</sup> Report No. 2017-113, *Cost of Tax Incentives and Exemptions*, issued in October 2017; Report No. 2015-080, *Sales and Use Tax*, issued in September 2015; and Report No. 2013-015, *Sales and Use Tax*, issued in February 2013.

<sup>3</sup> Colorado's uncapped discount of 3.33 percent is the most generous.

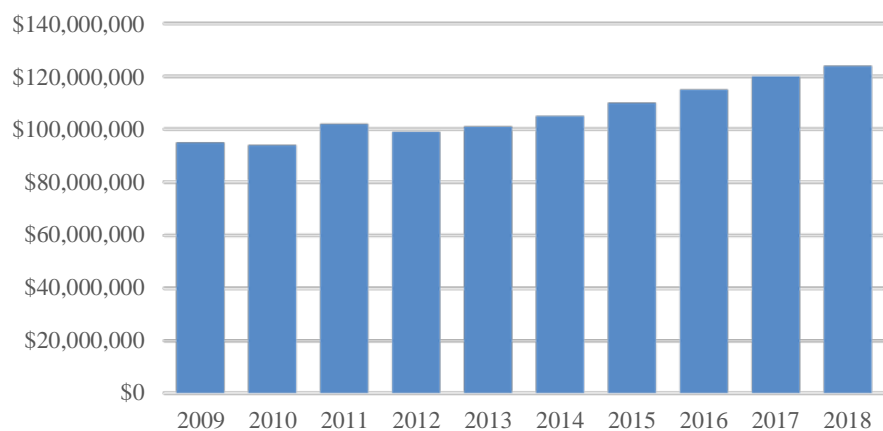


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businesses remitting sales and use taxes to retain 2 percent of taxes payable to the DOR if the business remits payments in a timely manner.<sup>4</sup> The amount of the discount is not capped.

As shown in Figure 3, the amount of sales and use tax revenues foregone as a result of the timely discount retained has increased relatively steadily from fiscal year 2009 to fiscal year 2018. State and local sales tax revenues of approximately \$120 million and \$124 million were collected from purchasers, but retained as discounts by businesses remitting sales and use taxes in fiscal years 2017 and 2018, respectively.

Figure 3: Timely discount totals, 2009-2018, by fiscal year



Source: DOR records

In fiscal year 2018, sales and use taxes comprised approximately 20 percent of the state's general revenue. With sales and use tax revenues being used to fund significant portions of state and local government budgets, such large discounts are significant.

According to the Federation of Tax Administrators,<sup>5</sup> 27 other states offer similar vendor discounts; however, 16 of the state's offering discounts have established ceilings to limit the amount of discount and/or compensation retained by businesses. In addition, 10 of the remaining 11 states either have a lower discount rate than Missouri or only apply the highest discount rate to

<sup>4</sup> Per Section 144.080, RSMo, if filing annually applicable taxes are due by January 31 of the following year, if filing quarterly applicable taxes are due the last day of the month following the completed quarter, and if filing monthly applicable taxes are due the 20th of the following month. Per Section 144.081, RSMo, if filing quarter-monthly applicable taxes are due within 3 business days following the completed quarter-monthly period.

<sup>5</sup> "State Sales Tax Rates and Vendor Discounts (January 1, 2019),"

<<https://www.taxadmin.org/assets/docs/Research/Rates/vendors.pdf>>, accessed on July 10, 2019.



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	a limited dollar amount of sales tax collected (e.g., the first \$3,000, then a lower rate applies).
Cap on discount would result in increased revenue	Changing state law to include a monthly cap on the amount of timely discount eligible to be retained would significantly increase state and local revenues. For example, as reported in our audit of state tax incentives and exemptions, <sup>6</sup> applying Oklahoma's cap of \$2,500 per month (the largest cap of contiguous states) to Missouri would have resulted in approximately \$52 million in additional state and local sales tax revenue in fiscal year 2016.
Cap on discount would only impact the state's largest retailers	<p>As further discussed in the audit of state tax incentives and exemptions, a monthly timely discount cap similar to Oklahoma's would not affect the majority of sales tax filers. Based on the state's average sales tax rate of 7.86 percent,<sup>7</sup> only businesses with monthly taxable sales of approximately \$1.6 million would have their timely discount capped. Retailers with less than \$1.6 million in monthly taxable sales would continue to receive the full 2 percent timely discount. In fiscal year 2016, the 50 largest sales tax collecting businesses retained approximately 72 percent of timely discounts exceeding \$2,500, with the single largest sales tax collecting business receiving \$10 million in discounts.</p> <p>The timely sales tax discount was established for businesses to recover a portion of their costs for compliance with state sales tax laws and to encourage timely remittance of sales and use taxes. With increased use of electronic systems to calculate and remit sales tax collections, it is not clear if the continued use of such a discount is necessary to achieve these objectives.<sup>8</sup> The current law allowing uncapped timely discounts results in the state and local governments providing a sizable subsidy to the largest retailers in the state, and is more generous than all but one other state. Implementing a cap on timely discounts would result in additional revenues to the state and local governments without increasing taxes on consumers.</p>
Amounts of timely discounts are not routinely reported	The DOR is not required to report, and does not routinely report the amount of timely discounts retained by businesses to the GA, local governments impacted, or the general public. DOR officials have stated this data is provided upon request. However, this information could be useful to the GA when making various budget decisions and ensuring the state and local policymakers and the general public are informed of the continuous cost of these discounts.

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<sup>6</sup> Report No. 2017-113, *Cost of Tax Incentives and Exemptions*, issued in October 2017.

<sup>7</sup> Scott Drenkard and Nicole Kaeding, "State and Local Sales Tax Rates in 2016," <<https://taxfoundation.org/state-and-local-sales-tax-rates-2016/>>, (March 2016), accessed on June 7, 2017. Calculation regarding the estimated monthly taxable sales was based on this estimated average sales tax rate.

<sup>8</sup> "Timely Filing Discount Costs Missourians Millions," <<http://www.mobudget.org/timely-filing-discount/>>, (October 2016), accessed on September 18, 2017.



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### 1.3 Internet sales

The GA has not passed legislation to allow Missouri to charge tax on online purchases made from out-of-state sellers or to participate in the Streamlined Sales and Use Tax Agreement (SSUTA), costing the state millions in potential sales tax revenue.

State law currently requires Missouri businesses to collect use tax on online sales only if the business has a physical presence in the state. On June 21, 2018, the United States Supreme Court ruled in *South Dakota v. Wayfair, Inc.*, 585 U.S. (2018), that states may charge tax on purchases made from out-of-state sellers, even if the seller does not have a physical presence in the taxing state. This decision overturned *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992), which restricted state taxation of interstate commerce.

#### Online sales increasing

With the increasing popularity and usage of online shopping, e-commerce sales have grown significantly in recent years. As reported in our audit of state tax incentives and exemptions, estimates from the U.S. Census Bureau<sup>9</sup> show e-commerce sales for the first quarter 2017 now account for approximately \$100 billion of \$1.25 trillion in total retail sales (approximately 8 percent), up from approximately \$36 billion in the second quarter 2008. Several studies<sup>10, 11</sup> have estimated the state is forgoing sales tax revenues in the hundreds of millions of dollars by not consistently collecting sales tax revenue on out of state internet sales. These studies also noted local vendors face a competitive disadvantage because consumers who make purchases online avoid paying sales/use taxes.

#### Streamlined Sales and Use Tax Agreement

The SSUTA, adopted in November 2002, is a cooperative effort among states, local governments, and businesses to simplify and make more uniform the sales and use tax collection and administration for retailers and states. The SSUTA aims to minimize costs and administrative burdens on retailers that collect sales tax, while also encouraging out-of-state sellers to collect tax on sales to customers in member states. Forty-four states, including Missouri, participated in the Streamline Sales Tax project. However, only 24 of these states (member states) have enacted legislation to conform to at least part of the SSUTA, which allows them to collect sales taxes from vendors in other states.

<sup>9</sup> U.S. Department of Commerce, "Quarterly Retail E-Commerce Sales 1st Quarter 2017," <[https://www.census.gov/retail/mrts/www/data/pdf/ec\\_current.pdf](https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf)>, accessed on June 5, 2017.

<sup>10</sup> Bruce, Donald, William F. Fox, LeAnn Luna, "State and Local Government Sales Tax Revenue Losses from Electronic Commerce," University of Tennessee, Center for Business and Economic Research, <<http://cber.bus.utk.edu/ecom.htm>>, accessed on May 31, 2017.

<sup>11</sup> Ying Huang, John Kosash, and Andrew Wesemann. (2012). "Internet Sales and Use Tax Issues in Missouri" Report 04-2012. University of Missouri Columbia, Institute of Public Policy, <<https://ipp.missouri.edu/publications/internet-sales-and-use-tax-issues-in-missouri/>>, accessed June 14, 2017.



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State legislation

Bills introduced during the state's 2019 legislative session to expand the collection of taxes on internet sales failed to become law. The state will forgo significant revenue from online sales, if future attempts to pass similar legislation remain unsuccessful.

## Recommendations

The General Assembly:

- 1.1 Consider changes to current state laws to require the DOR begin tracking exemption information so the reductions of state revenue related to each exemption can be quantified and reported to the General Assembly.
- 1.2 Evaluate the necessity of a timely sales tax discount. If such a discount is deemed necessary, consider the implementation of a monthly cap on the amount of discount retained, and also consider changes to current state laws to require the DOR annually report the reduction of state revenue related to the timely discount to the General Assembly, applicable political subdivisions, and to the general public.
- 1.3 Evaluate the impact of the *South Dakota v. Wayfair, Inc.* decision and continue to pursue legislation to collect taxes from out-of-state sellers.

## Auditee's Response

*Due to these recommendations being legislative in nature, no management response can be obtained. While the recommendations are not addressed to the DOR, department officials provided a written response. That response is included at Appendix A.*

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# Department of Revenue

## Sales and Use Tax

### Organization and Statistical Information

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The Department of Revenue (DOR) was created by Article IV, Section 12, Missouri Constitution as the central collection agency for state revenues. The Director of Revenue is appointed by the Governor, with the advice and consent of the Senate, and is responsible for all operations and policies. DOR responsibilities include:

- 1) Administering and collecting state taxes and fees, including sales and use tax, motor vehicle sales tax, and highway use tax.
- 2) Collecting certain taxes and fees for local governments, including local sales and use tax.
- 3) Titling and licensing motor vehicles, trailers, and boats.
- 4) Licensing motor vehicle operators.

The DOR consists of 3 divisions, the General Counsel's office, and the Director's office.

Motor Vehicle and Driver Licensing Division: This division collects motor vehicle sales and use taxes and consists of 3 bureaus. (1) The Motor Vehicle Bureau issues titles and registers motor vehicles, trailers, all-terrain vehicles, manufactured homes, and marine craft. The bureau also issues registration certificates to motor vehicle and salvage dealers and leasing companies. (2) The Driver License Bureau issues, renews, suspends, revokes, and reinstates driver and nondriver licenses and driving permits. The bureau processes and maintains records relating to license issuance, traffic violation point assessments, failure to appear in court for traffic violations, and administers the alcohol and abuse laws for alcohol/drug offenders. (3) The License Offices Bureau manages the operations of the contract license offices throughout the state. These local offices provide driver licensing and motor vehicle services and are operated by individuals or businesses approved through the state of Missouri bid process.

Taxation Division: This division consists of 4 bureaus that collect taxes and administer state tax law. (1) The Business Tax Bureau administers sales and use, financial institutions, insurance premiums, franchise, excise, cigarette and other tobacco products, motor fuel, corporate income, withholding, and county taxes and fees. (2) The Personal Tax Bureau administers individual income, partnership, fiduciary, and estate taxes. (3) The Collections and Tax Assistance Bureau provides tax assistance to individuals and businesses and performs appropriate procedures for unpaid tax liabilities. (4) The Field Compliance Bureau audits businesses both in-state and out-of-state to ensure compliance with Missouri's tax laws.

Administration Division: This division provides administrative support to all other areas of the DOR and consists of 2 bureaus. (1) The Human Resources and Total Rewards Bureau is responsible for the DOR's personnel matters, process improvements, and training. (2) The Financial and General Services





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Bureau is responsible for all accounting, procurement, banking, and general service matters. This bureau is also responsible for coordinating space and location needs, telecommunications, safety issues, maintenance, and improvement of the work environment within the DOR.

General Counsel's Office: This office ensures the DOR's compliance with law and internal policies, advises the director and divisions on legal matters relative to the DOR, and represents the DOR in courts and administrative tribunals. This office also consists of 2 investigation bureaus. (1) The Criminal Tax Investigation Bureau investigates and develops information leading to local prosecution of individuals and businesses suspected of violating state statutes related to sales, withholding, and income tax. (2) The Compliance and Investigation Bureau conducts investigations involving allegations of fraud relating to motor vehicle sales tax, titling and registration, odometer, and motor fuel sales tax as well as cigarette tax fraud, driver's license fraud and license plate fraud. The bureau also ensures the compliance of motor vehicle dealers, salvage businesses, and marine dealers with statutes and licensure regulations. In addition to external investigations, the bureau conducts internal audits and investigations of the DOR and contract license offices.

Director's Office: This office includes the Director, Chief Operating Officer, and key administrative staff responsible for the overall guidance and direction of the DOR. The office also includes the Public Information Office, the Legislative Office, and the Communications Office. The Public Information Office develops and maintains positive media and public relations for the DOR. The Legislative Office serves as the DOR's liaison to the General Assembly. The office provides technical assistance, develops fiscal and revenue estimates on proposed legislation, and monitors the progress of bills through the Legislature. The Communications Office develops and maintains department forms, policies, and procedures. The office also maintains the public and internal website, as well as manages the DOR's social media accounts.

Joel W. Walters served as Director of Revenue from April 2017 through March 22, 2019. On March 22, 2019, Kenneth J. Zellers was appointed as Acting Director of Revenue.



Appendix A  
Department of Revenue-Sales and Use Tax  
Department of Revenue Response

MICHAEL L. PARSON  
GOVERNOR



KENNETH J. ZELLERS  
ACTING DIRECTOR OF REVENUE  
CHIEF OPERATING OFFICER

MISSOURI DEPARTMENT OF REVENUE  
POST OFFICE BOX 311  
JEFFERSON CITY, MISSOURI 65105-0311  
PHONE: (573) 751-5671  
FAX: (573) 751-7150  
WEBSITE: [www.dor.mo.gov](http://www.dor.mo.gov)  
E-MAIL: [dormail@dor.mo.gov](mailto:dormail@dor.mo.gov)

August 1, 2019

Robyn Vogt, CPA  
Audit Manager  
Missouri State Auditor's Office  
HSTOB, Room 880  
Jefferson City, MO 65 102

Dear Robyn:

The Department of Revenue acknowledges the recommendations of the Missouri State Auditor's report on Sales and Use Tax Collections Audit.

Recommendation 1.1 — The General Assembly consider changes to current state laws to require the DOR begin tracking exemption information so the reductions of state revenue related to each exemption can be quantified and reported to the General Assembly.

Recommendation 1.2 — The General Assembly evaluate the necessity of a timely sales tax discount. If such a discount is deemed necessary, consider the implementation of a monthly cap on the amount of discount retained, and also consider changes to current state laws to require the DOR annually report the reduction of state revenue related to the timely discount to the General Assembly, applicable political subdivisions, and to the general public.

Recommendation 1.3 — The General Assembly evaluate the impact of the South Dakota v. Wayfair, Inc. decision and continue to pursue legislation to collect taxes from out-of-state sellers.

DOR Response — If the General Assembly passes legislation that requires action, the Department of Revenue will incorporate those provisions into our processes and comply with any state laws regarding these recommendations.

If you have any questions, please contact me at 751-7429, or [Lynn.Bexten@dor.mo.gov](mailto:Lynn.Bexten@dor.mo.gov).

Sincerely,

Ken Zellers

LB/

c: Lynn Bexten                      Joel Allison                      Maria Sanders  
Spencer Bartlett                      Mark Godfrey                      Esta Zaring

Appendix B

Department of Revenue  
 Sales and Use Tax  
 Combined Statement of Receipts and Distributions - State Funds  
 Year Ended June 30, 2018

	General Revenue Fund	Aviation Trust Fund	Conservation Commission Fund	State Highways and Transportation Department Fund	Parks Sales Tax Fund	School District Trust Fund	Soil and Water Sales Tax Fund	State Road Bond Fund	State Road Fund	State Transportation Fund	Total (Memorandum Only)
<b>RECEIPTS</b>											
Marine/ATV/Manufactured sales and use tax	\$ 8,303,302	0	341,634	0	136,653	2,732,542	136,655	0	0	0	11,650,786
Motor vehicle sales and use tax	3,630,331	0	14,201,414	11,314	5,680,572	56,805,239	5,680,574	170,415,716	165,873,949	4,544,419	426,843,528
Sales and use tax	<u>2,185,240,405</u>	<u>6,543,872</u>	<u>105,221,461</u>	<u>0</u>	<u>42,092,061</u>	<u>837,599,435</u>	<u>42,091,966</u>	<u>12,354,838</u>	<u>12,024,946</u>	<u>329,288</u>	<u>3,243,498,272</u>
Total Receipts	<u>2,197,174,038</u>	<u>6,543,872</u>	<u>119,764,509</u>	<u>11,314</u>	<u>47,909,286</u>	<u>897,137,216</u>	<u>47,909,195</u>	<u>182,770,554</u>	<u>177,898,895</u>	<u>4,873,707</u>	<u>3,681,992,586</u>
<b>DISTRIBUTIONS</b>											
Transmitted to State Treasurer	<u>2,197,174,038</u>	<u>6,543,872</u>	<u>119,764,509</u>	<u>11,314</u>	<u>47,909,286</u>	<u>897,137,216</u>	<u>47,909,195</u>	<u>182,770,554</u>	<u>177,898,895</u>	<u>4,873,707</u>	<u>3,681,992,586</u>
Total Distributions	<u>2,197,174,038</u>	<u>6,543,872</u>	<u>119,764,509</u>	<u>11,314</u>	<u>47,909,286</u>	<u>897,137,216</u>	<u>47,909,195</u>	<u>182,770,554</u>	<u>177,898,895</u>	<u>4,873,707</u>	<u>3,681,992,586</u>
RECEIPTS OVER (UNDER) DISTRIBUTIONS	\$ <u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Appendix C

Department of Revenue

Sales and Use Tax

Combined Statement of Receipts, Distributions, and Changes in Cash and Investments - Local Funds

Year Ended June 30, 2018

	Local Fuel Tax and Bond Trust Fund	Local Sales and Use Tax Trust Fund	Total (Memorandum Only)
<b>RECEIPTS</b>			
Motor fuel taxes and fees	\$ 220,694,772	0	220,694,772
Sales tax	56,805,238	3,397,376,943	3,454,182,181
Use tax	885	154,837,128	154,838,013
Miscellaneous tax	0	19,329,062	19,329,062
Protested tax	0	51,242	51,242
Motor fuel bond	1,500	0	1,500
Motor fuel pool bond	8,107	0	8,107
Interest income	114,695	2,964,542	3,079,237
Total Receipts	<u>277,625,197</u>	<u>3,574,558,917</u>	<u>3,852,184,114</u>
<b>DISTRIBUTIONS</b>			
Political subdivisions	276,867,874	3,495,884,579	3,772,752,453
General Revenue Fund	0	33,892,561	33,892,561
Total Distributions	<u>276,867,874</u>	<u>3,529,777,140</u>	<u>3,806,645,014</u>
RECEIPTS OVER (UNDER) DISTRIBUTIONS	757,323	44,781,777	45,539,100
CASH AND INVESTMENTS, JULY 1	<u>25,560,645</u>	<u>432,574,436</u>	<u>458,135,081</u>
CASH AND INVESTMENTS, JUNE 30	<u>\$ 26,317,968</u>	<u>477,356,213</u>	<u>503,674,181</u>

Appendix D

Department of Revenue

Sales and Use Tax

Combined Statement of Additions, Deductions, and Changes in Cash and Investments - Custodial Accounts

Year Ended June 30, 2018

	Compliance Clearing Account <sup>1</sup>	Motor Vehicle Clearing Account <sup>1</sup>	Protested Sales Tax General Revenue Account <sup>2</sup>	Sales Tax Bond Account <sup>2</sup>	Total (Memorandum Only)
<b>ADDITIONS</b>					
Miscellaneous tax collections	\$ 7,860,655	1,125,106,986	0	0	1,132,967,641
Protested tax collections	0	0	38,130	0	38,130
Bond collections	0	0	0	4,879,530	4,879,530
Interest income	11,277	207,264	2,327	0	220,868
Total Additions	<u>7,871,932</u>	<u>1,125,314,250</u>	<u>40,457</u>	<u>4,879,530</u>	<u>1,138,106,169</u>
<b>DEDUCTIONS</b>					
Miscellaneous taxes and interest	10,738,160	1,122,480,855	0	0	1,133,219,015
Protested taxes and interest	0	0	38,822	0	38,822
Bonds and interest	0	0	0	3,950,518	3,950,518
Total Deductions	<u>10,738,160</u>	<u>1,122,480,855</u>	<u>38,822</u>	<u>3,950,518</u>	<u>1,137,208,355</u>
ADDITIONS OVER (UNDER) DEDUCTIONS	(2,866,228)	2,833,395	1,635	929,012	897,814
CASH AND INVESTMENTS, JULY 1 <sup>3</sup>	<u>3,933,313</u>	<u>24,124,539</u>	<u>1,932,381</u>	<u>25,977,802</u>	<u>55,968,035</u>
CASH AND INVESTMENTS, JUNE 30	\$ <u><u>1,067,085</u></u>	<u><u>26,957,934</u></u>	<u><u>1,934,016</u></u>	<u><u>26,906,814</u></u>	<u><u>56,865,849</u></u>

<sup>1</sup> Held by the department in trust.

<sup>2</sup> Held by the State Treasurer in trust.

<sup>3</sup> The July 1 balance has been restated for the Protested Sales Tax General Revenue Account.

Appendix E

Department of Revenue  
Sales and Use Tax  
Combined Statement of Distributions - Local Funds  
Year Ended June 30, 2018

	Local Fuel Tax and Bond Trust Fund	City Sales Tax Trust Fund	City Alternate Sales Tax Trust Fund	St. Louis Capital Improvements Trust Fund	Public Mass Transportation Sales Tax Trust Fund	Local Option Use Tax Trust Fund	County Sales Tax Trust Fund	County Alternate Sales Tax Trust Fund	Districts Sales Tax Trust Fund	Total (Memorandum Only)
Cities <sup>1</sup>	\$ 159,304,125	637,400,775	665,057,271	24,139,168	278,107,907	106,416,914	0	0	0	1,870,426,160
Counties <sup>1</sup>	117,563,748	0	0	0	220,932,322	44,758,279	486,716,191	775,802,624	0	1,645,773,164
Districts <sup>1</sup> :										
Ambulance Districts	0	0	0	0	0	0	0	0	57,517,087	57,517,087
Emergency Service Districts	0	0	0	0	0	0	0	0	14,829,750	14,829,750
Fire Protection Districts	0	0	0	0	0	0	0	0	19,333,947	19,333,947
Hospital Districts	0	0	0	0	0	0	0	0	369,693	369,693
Public Library Districts	0	0	0	0	0	0	0	0	1,520,400	1,520,400
Regional Jail Districts	0	0	0	0	0	0	0	0	1,079,528	1,079,528
Regional Recreation Districts	0	0	0	0	0	0	0	0	13,888	13,888
Tourism Community Districts	0	0	0	0	0	0	0	0	8,359,606	8,359,606
Zoological Districts	0	0	0	0	0	0	0	0	17,862,598	17,862,598
Transportation Development Districts	0	0	0	0	0	0	0	0	78,091,563	78,091,563
Community Improvement Districts <sup>2</sup>	0	0	0	0	0	926,951	0	0	61,868,619	62,795,570
Port Improvement Districts	0	0	0	0	0	2,322	0	0	275,759	278,081
TOTAL	\$ 276,867,873	637,400,775	665,057,271	24,139,168	499,040,229	152,104,466	486,716,191	775,802,624	261,122,438	3,778,251,035

<sup>1</sup> Local sales and use tax distributions by political subdivision are available in the Department of Revenue's annual Financial and Statistical Report. However, the Department of Revenue does not report distributions for political subdivisions with less than 6 taxpayers. For this schedule, all local sales and use tax distributions have been included in the amounts reported. The Department of Revenue's annual Financial and Statistical Report is accessible through the Department of Revenue's website at <http://www.dor.mo.gov>.

<sup>2</sup> In fiscal year 2018, the Department of Revenue combined Community Development Districts with Community Improvement Districts.

Appendix F

Department of Revenue  
Sales and Use Tax

Comparative Statement of State and Local Sales and Use Tax Collections

	Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
State Sales and Use Tax	\$ 3,061,095,719	2,951,026,637	3,007,369,328	3,131,793,823	3,192,624,294	3,331,915,714	3,430,314,960	3,588,844,184	3,659,746,431	3,742,345,985
Local Sales and Use Tax	2,284,307,264	2,298,017,458	2,522,963,128	2,657,636,085	2,710,095,629	2,950,216,388	3,134,151,262	3,277,995,153	3,312,491,891	3,552,265,312
TOTAL COLLECTIONS	\$ 5,345,402,983	5,249,044,095	5,530,332,456	5,789,429,908	5,902,719,923	6,282,132,102	6,564,466,222	6,866,839,337	6,972,238,322	7,294,611,297

Appendix G

Department of Revenue  
Sales and Use Tax

Comparative Statement of State and Local Sales and Use Tax Collections - Adjusted for Inflation

	Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
State Sales and Use Tax	\$ 3,552,879,375	3,382,350,013	3,373,713,182	3,419,081,441	3,426,413,597	3,520,842,151	3,604,450,881	3,743,786,486	3,745,584,604	3,742,345,985
Local Sales and Use Tax	2,651,295,128	2,633,896,720	2,830,298,854	2,901,427,976	2,908,550,352	3,117,499,692	3,293,252,779	3,419,517,072	3,390,185,320	3,552,265,312
TOTAL COLLECTIONS	\$ <u>6,204,174,503</u>	<u>6,016,246,733</u>	<u>6,204,012,036</u>	<u>6,320,509,417</u>	<u>6,334,963,949</u>	<u>6,638,341,843</u>	<u>6,897,703,660</u>	<u>7,163,303,558</u>	<u>7,135,769,924</u>	<u>7,294,611,297</u>



Appendix H

Department of Revenue  
Sales and Use Tax  
Comparative Statement of Distributions - Local Funds

	Year Ended June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cities <sup>1</sup>	\$ 1,352,429,722	1,302,336,515	1,375,434,603	1,472,512,205	1,479,663,181	1,556,763,139	1,702,603,661	1,751,813,928	1,743,115,737	1,870,426,160
Counties <sup>1</sup>	1,090,219,625	1,084,318,714	1,190,874,338	1,273,528,036	1,275,642,722	1,336,010,850	1,477,149,378	1,521,425,739	1,520,155,318	1,645,773,164
Districts <sup>1</sup>										
Ambulance Districts	33,204,314	35,834,162	37,614,539	40,232,711	40,622,866	43,754,650	49,247,153	53,054,189	54,854,636	57,517,087
Emergency Service Districts	0	3,887,078	7,143,953	7,519,253	7,524,813	10,430,448	13,184,536	13,813,028	14,101,642	14,829,750
Fire Protection Districts	9,684,184	11,767,709	13,060,004	14,105,320	14,207,178	15,240,684	16,945,905	17,701,780	17,955,973	19,333,947
Hospital Districts	0	0	0	97,546	329,590	383,322	394,732	417,350	403,102	369,693
Public Library Districts	0	0	0	0	623,720	1,064,213	1,202,701	1,227,514	1,194,950	1,520,400
Regional Jail Districts	874,836	857,842	872,570	925,244	895,020	936,890	1,035,556	1,058,124	1,081,865	1,079,528
Regional Recreation Districts	0	0	0	1,029	3,146	3,857	5,383	3,528	4,639	13,888
Tourism Community Districts	7,262,564	7,089,429	7,451,557	6,052,170	7,401,168	7,531,710	7,936,743	8,217,319	8,127,822	8,359,606
Zoological Districts	0	0	0	4,542,779	14,249,348	14,986,687	16,515,801	17,239,588	17,131,267	17,862,598
Transportation Development Districts	2,861,227	14,144,062	45,774,991	51,150,119	51,515,254	60,401,992	71,639,918	74,911,843	74,945,567	78,091,563
Community Improvement Districts <sup>2</sup>	11,272,475	15,047,449	18,518,718	24,057,173	27,846,354	30,357,558	40,712,899	46,456,789	49,905,510	62,795,570
Community Development Districts	3,204,365	3,048,250	2,896,714	3,131,750	3,177,621	3,238,916	3,607,775	3,770,163	3,854,222	0
Port Improvement Districts	0	0	0	0	0	0	0	131,268	205,849	278,081
Total Districts	68,363,965	91,675,981	133,333,046	151,815,094	168,396,078	188,330,927	222,429,102	238,002,483	243,767,044	262,051,711
TOTAL LOCAL DISTRIBUTIONS	\$ <u>2,511,013,312</u>	<u>2,478,331,210</u>	<u>2,699,641,987</u>	<u>2,897,855,335</u>	<u>2,923,701,981</u>	<u>3,081,104,916</u>	<u>3,402,182,141</u>	<u>3,511,242,150</u>	<u>3,507,038,099</u>	<u>3,778,251,035</u>

<sup>1</sup> For fiscal years prior to fiscal year 2015, sales and use tax distributions for political subdivisions with less than 6 taxpayers are not included in the amounts reported.

<sup>2</sup> In fiscal year 2018, the Department of Revenue combined Community Development Districts with Community Improvement Districts.