



MEMORANDUM

To: Mayor Pat Fribis and Board of Aldermen

From: Brittany Gillett, City Administrator

Date: November 10, 2020

Re: Use Tax Discussion

As discussed in previous 2021 budget memorandums, the City is experiencing a decline in sales tax receipts due to an increase in online retail sales and the closure of significant sales tax generators like Johnny Macs and Toys R Us. Additionally, COVID-19 has disrupted brick and mortar retail sales, though the overall economic impact to the City is still uncertain.

Diversifying the City's revenue streams can help to reduce financial stress during times of economic decline. Implementing a use tax for the City of Sunset Hills would allow the City to capture sales tax from out-of-state retailers who profit from products sold within the City.

A local use tax is imposed on the storage, use or consumption of tangible personal property within the City. Municipalities are able to impose, with voter approval, a use tax equivalent to their current sales tax rate; in Sunset Hills that would be 1.25%. The amount of use tax due on a transaction depends on the combined (local and state) use tax rate in effect at the Missouri location where the tangible personal property is stored, used or consumed.

Unlike sales tax, which requires a sale at a retailer in Missouri, a local use tax would be imposed directly upon the tangible personal property that is stored, used, or consumed in Sunset Hills. A use tax would not apply if the purchase is from a Missouri retailer and subject to Missouri sales tax.

Until the passage of the Wayfair Act by the State Legislature, Missouri cannot require out-of-state companies that do not have nexus or a "direct connection" with the state to collect and remit use tax. If an out-of-state seller does not collect use tax from the purchaser, the purchaser is responsible for remitting the use tax to Missouri and the local municipality, should they have the local use tax option in place.

A use tax would be imposed on the following purchases:

- Catalog purchases
- Magazine subscriptions
- Cross-border purchases of goods
- TV marketing purchases
- Computer software and hardware
- Mail-order supply purchases
- Furniture and equipment purchases from out-of-state sellers
- Purchases of goods bought over the Internet
- Purchases of goods bought over the telephone
- Purchases of goods from outside the United States

At the moment, it is difficult to estimate how much revenue would be generated by the passage of a local use tax option in Sunset Hills. The City of Crestwood typically experiences revenues in the \$250,000-350,000 range while the City of Kirkwood is closer to \$600,000. The passage of the Wayfair Act, requiring out-of-state retailers to collect a use tax at the time of the sale, would significantly increase any estimate as well, considering US ecommerce sales grew 14.9% in 2019, with consumers spending over \$600B online. The trend is likely to continue with COVID-19 having accelerated ecommerce growth by an estimated 4-6 years.

Currently, staff is seeking direction from the Board of Aldermen to draft an ordinance which would place the use tax option on the April 2021 ballot. The Finance Committee has recommended the Board move forward with the ballot measure and discussed the implementation of a committee, similar to the Prop P committee that was formed when the Parks and Stormwater tax was being considered. If directed by the Board, the ordinance would be placed on the December 8th Board of Aldermen agenda for first consideration.

Please contact me with questions or requests for further information.