

March 31, 2015

The Honorable Marvin Kleeb, Chairperson  
House Committee on Taxation  
Statehouse, Room 185-N  
Topeka, Kansas 66612

Dear Representative Kleeb:

**SUBJECT:** Fiscal Note for HB 2283 by Representative Henry

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2283 is respectfully submitted to your committee.

HB 2283 would provide a sales tax exemption for farm products sold at a farmers' market. The bill lists the farm products that would qualify for this sales tax exemption, including fresh fruits; vegetables; mushrooms; nuts; eggs; honey; maple syrup; flowers; nursery stock and other horticultural commodities; livestock food products, including meat, milk, cheese and other dairy products; food products of aquaculture, including fish, oysters, clams, mussels, and other molluscan shellfish taken from the waters of the state; products from any tree, vine, plant, and flowers; or any of the products that have been processed, including baked goods made with farm products. The bill provides a definition of a farmers' market and would not allow the sales tax exemption for any person or entity with estimated total annual sales of \$25,000 or more from participating in farmers' markets.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$124,931)	(\$150,000)
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2283 would decrease state revenues by \$150,000 in FY 2016. Of that total, the State General Fund is estimated to decrease by \$124,391 in FY 2016, while the State Highway Fund is estimated to decrease by \$25,609 in FY 2016. This bill also is estimated to decrease local revenues by \$37,500 in FY 2016. The fiscal effect to state and local revenues during subsequent years would be as follows:

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	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$129,055)	(\$133,895)	(\$138,916)	(\$144,125)
State Highway Fund	(26,570)	(27,566)	(28,600)	(29,672)
Local Governments	<u>(38,906)</u>	<u>(40,365)</u>	<u>(41,879)</u>	<u>(43,449)</u>
	(\$194,531)	(\$201,826)	(\$209,395)	(\$217,246)

To formulate these estimates, the Department of Revenue reviewed data on sales tax collections from farmers' markets. The Department indicates that the bill has the potential to place Kansas out of compliance with the Streamlined Sales and Use Tax Agreement, which prohibits a state from exempting specific food-related items that fit within the statutory definition of "food and food ingredients" without exempting all items falling within that definition. For FY 2016, Kansas is estimated to receive \$51.8 million in state and local retail sales and compensating use taxes from remote retailers from being a full member state of this agreement. Those revenues could be at risk and may no longer be received if Kansas loses its member status, as other members would no longer be contractually required to remit retail sales and compensating use taxes to Kansas. According to the Department, reissuing sales tax publications and to develop notices and guidance to taxpayers on the administration of the sales tax exemption would cost \$1,200 from the State General Fund in FY 2016.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. KDOT indicates that when the state receives lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2283 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,  
Director of the Budget

cc: Jack Smith, Department of Revenue  
Larry Baer, League of Municipalities  
Melissa Wangemann, Association of Counties  
Ben Cleaves, Transportation