

April 1, 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 2408 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2408 is respectfully submitted to your committee.

HB 2408 would remove the following existing sales tax exemptions beginning on July 1, 2015:

1. Certain telecommunication services;
2. Fees, charges, dues, and memberships for participation in sports, games, and recreational activities that are operated by certain humanitarian service providers;
3. Materials and services applied to equipment brought into Kansas and subsequently transported outside the state and used in oil and gas pipelines transmissions;
4. Seeds, trees, fertilizers, and other materials and services for soil erosion on agricultural land;
5. Materials and services for construction of a Korean War Memorial;
6. Materials purchased by the Rotary Club of Shawnee Foundation;
7. Materials purchased by a contractor for the Wichita Children's Home;
8. Materials and services purchased by the Beacon, Inc.;
9. Materials and services purchased by Reaching Out From Within, Inc.; and
10. Materials and services for the original construction, reconstruction, repair, or replacement of certain grain storage facilities that expired on December 31, 2000.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$3,720,000	\$4,490,000
Expenditure	--	--	\$3,500	\$3,500
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2408 would increase state revenues by \$4,490,000 in FY 2016. Of that total, the State General Fund is estimated to increase by \$3,720,000 in FY 2016, while the State Highway Fund is estimated to increase by \$770,000 in FY 2016. This bill also is estimated to increase local revenues by \$1,120,000 in FY 2016. The increase in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	--	2,300,000
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	3,720	2,273,720
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	\$ 3,720	\$5,974,320
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	\$ 3,720	\$5,815,120

The fiscal effect to local and state revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$3,860,000	\$4,010,000	\$4,160,000	\$4,310,000
State Highway Fund	790,000	820,000	860,000	890,000
Local Governments	<u>1,160,000</u>	<u>1,210,000</u>	<u>1,250,000</u>	<u>1,300,000</u>
	\$5,810,000	\$6,040,000	\$6,270,000	\$6,500,000

To formulate these estimates, the Department of Revenue reviewed state sales tax data on the exemptions that are proposed to be eliminated under this bill. The bill is estimated to generate approximately \$4,490,000 in state sales tax revenues in FY 2016, including \$2,130,000 from removing the sales tax exemption for certain telecommunication services, \$900,000 from removing the sales tax exemption for humanitarian service providers, \$1,410,000 from removing the sales tax exemption for materials and services for soil erosion projects, and \$50,000 from removing the sales tax exemption for the listed nonprofit organizations. According to the Department, reissuing sales tax publications, revising exemption certificates, and notifying organizations would cost \$3,500 from the State General Fund in FY 2016.

The Kansas Department of Transportation (KDOT) indicates that the bill would increase state revenues to the State Highway Fund as noted above. KDOT indicates the bill would provide additional funding for 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 increase to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2408 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

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