

February 22, 2016

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

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2583 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2583 is respectfully submitted to your committee.

Under current law, the tax rate of \$0.20 per milliliter of consumable material for electronic cigarettes goes into effect on July 1, 2016. HB 2583 would repeal this new tax and replace it with a 3.5 percent gross receipts tax on the sale of electronic cigarettes.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	(\$775,000)	(\$775,000)
Expenditure	--	--	\$108,849	\$108,849
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2583 would decrease State General Fund revenues by \$775,000 in FY 2017. The decrease in revenues and how the November 6, 2015 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2015)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	\$2,485,000	\$ --	\$2,485,000
Corporate	420,000	--	420,000
Financial Institutions	47,000	--	47,000

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Excise Taxes:

Retail Sales	2,380,000	--	2,380,000
Compensating Use	395,000	--	395,000
Cigarette	135,000	--	135,000
Severance	58,200	--	58,200
All Other Excise Taxes	116,400	--	116,400
Other Taxes	<u>173,300</u>	<u>(775)</u>	<u>172,525</u>
Total Taxes	\$6,209,900	(\$ 775)	\$6,209,125

Other Revenues:

Interest	\$ 9,200	\$ --	\$ 9,200
Transfers	17,600	--	17,600
Agency Earnings	<u>49,000</u>	<u>--</u>	<u>49,000</u>
Total Other Revenues	\$ 75,800	\$ --	\$ 75,800

Total Receipts	\$6,285,700	(\$ 775)	\$6,284,925
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To formulate this estimate, the Department of Revenue reviewed data on sales of electronic cigarettes. The Department estimates that the 3.5 percent tax on the gross sales of electronic cigarettes would produce \$1,225,000 for the State General Fund in FY 2017. Repealing the tax rate of \$0.20 per milliliter of consumable material for electronic cigarettes would reduce revenues to the State General Fund by \$2.0 million in FY 2017. Therefore, the overall fiscal effect of HB 2583 would reduce State General Fund revenues by \$775,000 in FY 2017.

The Department of Revenue indicates that it would require \$108,849 from the State General Fund in FY 2017 to implement the bill, including the costs associated with creating forms and instructions, salaries and wages for a new 1.00 FTE Customer Representative Specialist, and to modify the tax processing computer system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2583 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue