

February 20, 2023

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2202 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2202 is respectfully submitted to your committee.

HB 2202 would provide a sales tax exemption for over-the-counter drugs. Over-the-counter drugs include a label that identifies the product as a drug under requirements of the federal Food and Drug Administration. The over-the-counter drug label includes a drug facts panel, or a statement of the active ingredients with a list of those ingredients contained in the compound, substance, or preparation. Over-the-counter drugs do not include grooming and hygiene products such as soaps, cleaning solutions, shampoo, toothpaste, antiperspirants, and suntan lotions and screens. The sales tax exemption would become effective on July 1, 2023.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$17,400,000)	(\$20,900,000)
Expenditure	--	--	\$1,800	\$1,800
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2202 would decrease state revenues by \$20.9 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$17.4 million in FY 2024 while the State Highway Fund is estimated decrease by \$3.5 million in FY 2024. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate

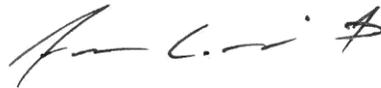
of lower local sales tax revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State General Fund	(\$19,000,000)	(\$19,100,000)	(\$19,300,000)	(\$19,500,000)
State Highway Fund	<u>(4,000,000)</u>	<u>(4,200,000)</u>	<u>(4,200,000)</u>	<u>(4,300,000)</u>
	(\$23,000,000)	(\$23,300,000)	(\$23,500,000)	(\$23,800,000)

According to the Department of Revenue, reissuing sales tax publications and issuing tax entity exemption certificates would cost \$1,800 from the State General Fund in FY 2024. The Kansas Department of Transportation indicates that the bill would reduce state revenues to the State Highway Fund as noted above. Any fiscal effect associated with HB 2202 is not reflected in *The FY 2024 Governor's Budget Report*.

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.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities
Lynn Robinson, Department of Revenue
Brendan Yorkey, Department of Transportation