

January 19, 2023

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
300 SW 10th Avenue, Room 548-S
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 29 by Senator Peck, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 29 is respectfully submitted to your committee.

SB 29 would expand the state's sales tax exemptions to include a sales tax holiday for back-to-school related sales of clothing, clothing accessories or equipment, school supplies, school instructional materials, school art supplies, prewritten computer software, personal computers, and school computer supplies. There would be no maximum caps for any items for the back-to-school sales tax holiday. The sales tax holiday would occur on the first Thursday in August at 12:01 a.m. and end at midnight on the following Sunday. The bill provides definitions for clothing, clothing accessories or equipment, school supplies, school instructional materials, school art supplies, prewritten computer software, personal computers, and school computer supplies. The first sales tax holiday for school supplies would occur in August 2023. The bill would become effective upon its publication in the *Kansas Register*.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$7,700,000)	(\$9,300,000)
Expenditure	--	--	\$1,800	\$1,800
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 29 would decrease state revenues by \$9.3 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$7.7 million

in FY 2024, while the State Highway Fund is estimated to decrease by \$1.6 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	(\$7,700,000)	(\$7,700,000)	(\$7,800,000)	(\$7,900,000)
State Highway Fund	<u>(1,600,000)</u>	<u>(1,700,000)</u>	<u>(1,700,000)</u>	<u>(1,700,000)</u>
	(\$9,300,000)	(\$9,400,000)	(\$9,500,000)	(\$9,600,000)

To formulate these estimates, the Department of Revenue reviewed data on state sales tax collections and consumer expenditure data. Consumer expenditure data from the U.S. Department of Labor show that the average Midwestern household annually spends \$1,749 on clothing and \$1,159 on education. It is estimated that 100.0 percent of the clothing and 40.0 percent of the education purchases would qualify for exempt status during the proposed sales tax holiday. The Department estimates that sales tax collections from computer-related expenditures at electronic stores totaled \$53.3 million in FY 2022 based on data from the state sales tax collections report. These collections are estimated to represent 10.0 percent of the total sales tax from computer equipment and software. Data from other states indicate there is an increase in purchases during a sales tax holiday that ranges from “slight” to a five-fold increase in purchases and corresponding decreases in sales volume before and after the holiday period as shoppers shift their purchases to take advantage of the sales tax holiday. For the Kansas sales tax holiday, it is assumed that sales during the four-day period would be at least triple the normal purchases, with corresponding decreases in sales volume before and after the sales tax holiday period.

Experiences from other states point to the need for an extensive guidebook on what purchases are exempt, how to report the exempt sales, and provide other sales tax holiday instructional material. The Department anticipates there will be extensive questions and concerns from retailers that will result in allocation of available resources to administer the holiday vs. performing other duties. Any additional personnel expenses that may be required to implement the bill are not included in the fiscal note.

The Department indicates that the bill includes definitions of school supplies that are inconsistent with the approved definitions in the Streamlined Sales and Use Tax Agreement. Those inconsistencies have the potential to cause compliance issues. The Department indicates that the bill would require \$1,800 from the State General Fund in FY 2024 to update sales tax forms and publications.

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. 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.

The fiscal effect associated with SB 29 is partially reflected in *The FY 2024 Governor's Budget Report*. The back-to-school sales tax holiday included in *The FY 2024 Governor's Budget Report* includes caps of \$300 on clothing and clothing accessories; \$100 for school supplies, school instructional materials, and school art supplies; \$300 for prewritten computer software, and \$2,000 for computers, which reduces the fiscal effect.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

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