



February 11, 2025

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 2154 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2154 is respectfully submitted to your committee.

Under current law, motor vehicles rented or leased for fewer than 28 days are subject to a 3.5 percent excise tax and are exempt from property tax. HB 2154 would discontinue the 3.5 percent excise tax and would require that these motor vehicles be subject to property tax beginning on July 1, 2025. The bill would also remove statutory references to this excise tax.

Passage of HB 2154 would increase property tax revenues by removing a current property tax exemption. The state would receive additional property tax revenues to the two state building funds, the Educational Building Fund and the State Institutions Building Fund. The bill would also increase revenues to any local government that levies a property tax. However, the Department of Revenue does not have data on rental or leased motor vehicles valuations and if these motor vehicles would be registered in the state under the provisions of HB 2154; therefore, a precise estimate of the amount of increased property tax revenues and its effect on local and state revenues cannot be estimated. The Department indicates that there are currently 15,056 motor vehicles registered in the rental fleet system. In calendar year 2023, local governments collected \$6,571,670 from this excise tax.

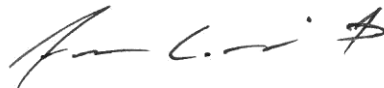
The Department indicates that the bill would require \$26,990 from the State General Fund in FY 2026 to implement the bill and to modify the motor vehicle registration system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2154 is not reflected in *The FY 2026 Governor's Budget Report*.

The Kansas Association of Counties indicates the bill would discontinue the 3.5 percent excise tax that is currently distributed to counties based on location of the rental or lease transaction. The bill would also remove the property tax exemption for certain rented or leased motor vehicles. While the fiscal effect may vary by county, it is estimated to be a net reduction in revenue that is used in part to finance county governments. However, the Association does not have a basis on which to estimate the amount of lower excise fee revenue and increased property tax revenue to make a precise estimate of the fiscal effect on county governments.

Under current law, cities set their property tax based on amount of taxes needed to fund city operations. The League of Kansas Municipalities indicate the bill has the potential to expand the property base by removing a current property tax exemption.

Sincerely,

A handwritten signature in black ink, appearing to read 'Adam C. Proffitt', followed by a stylized flourish or symbol.

Adam C. Proffitt
Director of the Budget

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