

February 26, 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 2162 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2162 is respectfully submitted to your committee.

Under current law, no sales tax is imposed for the service of installing or applying tangible personal property in connection with original construction of a building or a facility that becomes part of real estate. HB 2162 would extend this sales tax exemption to include reconstruction, restoration, remodeling, renovation, repair, or replacement of a building or facility. The sales tax exemption would go into effect on July 1, 2025.

Estimated State Fiscal Effect			
	FY 2025	FY 2026	FY 2027
Expenditures			
State General Fund	--	\$1,340	--
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	\$1,340	--
Revenues			
State General Fund	--	(\$63,100,000)	(\$71,000,000)
Fee Fund(s)	--	(13,900,000)	(15,600,000)
Federal Fund	--	--	--
Total Revenues	--	(\$77,000,000)	(\$86,600,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2162 would decrease state revenues by \$77.0 million in FY 2026. Of this amount, State General Fund revenues are estimated to decrease by \$63.1 million, while State Highway Fund revenues are estimated to decrease by \$13.9 million. The bill is also expected to decrease local sales tax revenues; however, the specific estimate of this reduction was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

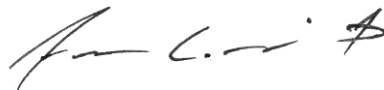
	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>	<u>FY 2030</u>
State General Fund	(\$71,000,000)	(\$73,200,000)	(\$75,500,000)	(\$77,900,000)
State Highway Fund	<u>(15,600,000)</u>	<u>(16,100,000)</u>	<u>(16,600,000)</u>	<u>(17,100,000)</u>
	(\$86,600,000)	(\$89,300,000)	(\$92,100,000)	(\$95,000,000)

To formulate these estimates, the Department of Revenue reviewed actual deductions reported on returns filed by taxpayers self-reporting in the construction industry (NAICS Code 23) for calendar years 2019 through 2023. It is estimated that 27.5 percent of those deductions are attributable to reconstruction, restoration, remodeling, renovation, repair, or replacement of a building or facility. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,340 from the State General Fund in FY 2026.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce revenues to the State Highway Fund as noted above. KDOT indicates that when the state receives fewer State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan. Any fiscal effect associated with HB 2162 is not reflected in *The FY 2026 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. This bill has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact the bill would have on the viability of those projects.

Sincerely,



Adam C. Proffitt
Director of the Budget

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