

May 11, 2017

CORRECTED

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

Dear Representative Johnson:

SUBJECT: Corrected Fiscal Note for HB 2369 by House Committee on Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2369 is respectfully submitted to your committee.

HB 2369 would phase out the retail sales tax imposed by the state on food and food ingredients over a six-year period. Food and food ingredients are defined as substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value. Food and food ingredients would not include alcoholic beverages, tobacco, or food sold through vending machines. Food and food ingredients would specifically include bottled water, candy, dietary supplements, and soft drinks. In the original fiscal note issued, an incorrect definition of food and food ingredients was used. The bill provides specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The bill would adjust the state retail sales tax rates and distribution of state sales tax revenue specifically collected on food and food ingredients as follows:

<u>Date of Rate Change</u>	<u>Tax Rate</u>	<u>Percent to State General Fund</u>	<u>Percent to State Highway Fund</u>
Current law	6.5 %	83.846 %	16.154 %
January 1, 2018	5.5	83.712	16.288
January 1, 2019	4.5	83.383	16.617
January 1, 2020	3.5	83.040	16.960
January 1, 2021	2.5	82.683	17.317
January 1, 2022	1.5	82.310	17.690
January 1, 2023	--	81.837	18.163
January 1, 2024	--	81.479	18.521

Once the state sales tax is eliminated on food and food ingredients on January 1, 2023, local governments would no longer be able to charge a local sales tax on food and food ingredients.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	(\$21,670,000)	(\$25,860,000)	(\$74,120,000)	(\$88,720,000)
Expenditure	\$133,838	\$133,838	\$133,838	\$133,838
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2369 would decrease state revenues by \$25,860,000 in FY 2018 and by \$88,720,000 in FY 2019. Of those totals, the State General Fund is estimated to decrease by \$21,670,000 in FY 2018 and by \$74,120,000 in FY 2019, while the State Highway Fund is estimated to decrease by \$4,190,000 in FY 2018 and by \$14,600,000 in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY2023</u>
State General Fund	(\$252,620,000)	(\$318,830,000)	(\$345,840,000)	(\$357,010,000)
State Highway Fund	<u>(50,970,000)</u>	<u>(65,940,000)</u>	<u>(73,380,000)</u>	<u>(77,980,000)</u>
	(\$303,590,000)	(\$384,770,000)	(\$419,220,000)	(\$434,990,000)

This bill would not have a fiscal effect on local sales tax revenues until after January 1, 2023, when local governments would no longer be able to charge a local sales tax on food and food ingredients; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue. The Streamlined Sales Tax Agreement requires once a taxable item is fully exempt from state sales taxes, it would also be exempt from local sales taxes. The Department indicates that State General Fund estimates for FY 2018 and FY 2019 are based on the November 2016 Consensus Revenue Estimate. The estimate assumes that 15.0 percent of all current sales tax collections are collected on food and food ingredients.

The Department indicates that the bill would require \$133,838 from the State General Fund in FY 2018 through FY 2023 to implement the bill. The bill would require changes to sales tax forms and publications and modifications to the sales tax processing 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, additional expenditures for outside contract programmer services beyond the Department’s current budget may be required.

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

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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, known as T-WORKS.

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. Any fiscal effect associated with HB 2369 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Ben Cleeves, Transportation  
Larry Baer, League of Municipalities  
Melissa Wangemann, Association of Counties