



Adam Proffitt, Director

Laura Kelly, Governor

March 10, 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 2256 by Representatives Sawyer, Clayton, and Corbet

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2256 is respectfully submitted to your committee.

HB 2256 would exempt food and food ingredients, including prepared foods and food sold at restaurants from state retail sales and compensation use tax on July 1, 2023. The bill would decrease the distribution of state retail sales and compensating use tax revenue to the State General Fund from 83.0 percent to 80.264 percent and increase the distribution to the State Highway Fund from 17.0 percent to 19.736 percent. Local governments that have a sales tax would continue to charge a retail sales tax on food and food ingredients, including prepared foods and food sold at restaurants.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$610,100,00)	(\$610,200,000)
Expenditure	--	--	\$3,600	\$3,600
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2256 would decrease state revenues by \$610.2 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$610.1 million in FY 2024, while the State Highway Fund is estimated to decrease by \$100,000 in FY 2024. The bill would have no fiscal effect on local sales tax revenues. The fiscal effect to state revenues would be as follows:

<u>Tax Policy Changes (SGF Only)</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Retail Sales Tax	(\$581,800,000)	(\$449,300,000)	(\$388,200,000)
Compensating Use Tax	<u>(28,300,000)</u>	<u>(24,400,000)</u>	<u>(31,200,000)</u>
Total SGF	(\$610,100,000)	(\$473,700,000)	(\$419,400,000)

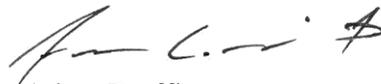
<u>Tax Policy Changes (SHF Only)</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Retail Sales Tax	(\$28,400,000)	(\$13,200,000)	(\$31,000,000)
Compensating Use Tax	<u>28,300,000</u>	<u>24,400,000</u>	<u>31,200,000</u>
Total SHF	(\$ 100,000)	\$11,200,000	\$ 200,000
<u>Tax Policy Changes (Total)</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Retail Sales Tax	(\$610,200,000)	(\$462,500,000)	(\$419,200,000)
Compensating Use Tax	<u>--</u>	<u>--</u>	<u>--</u>
Total	(\$610,200,000)	(\$462,500,000)	(\$419,200,000)

To formulate the estimates of the sales tax exemption for food and food ingredients, including prepared foods and food sold at restaurants, the Department assumes that 24.0 percent of all current sales tax collections are collected on food and food ingredients, including prepared foods and food sold at restaurants. The fiscal effect was calculated in relation to current law that reduces and eventually sets a 0.0 percent state sales tax rate specifically on food and food ingredients (not prepared foods and food sold at restaurants) and planned changes to the distribution of overall state retail sales and compensating use tax revenue contained in 2022 HB 2106. The Department estimates that exempting food and food ingredients (including food sold at restaurants) would result in a reduction in state sales tax collections of \$610.2 million in FY 2024, \$462.5 million in FY 2025, and \$419.2 million in FY 2026. According to the Department of Revenue, reissuing sales tax publications and updating forms would cost \$3,600 from the State General Fund in FY 2024.

The Kansas Department of Transportation indicates that the bill would provide a net increase to state revenues to the State Highway Fund as noted above. However, the fiscal effect on the Eisenhower Legacy Transportation Program would be negligible. Any fiscal effect associated with HB 2256 is not reflected in *The FY 2024 Governor’s Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would have no fiscal effect on local government sales tax revenues. The bill also has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact this bill would have on the viability of those projects.

Sincerely,



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