

January 18, 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 21 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 21 is respectfully submitted to your committee.

SB 21 would expand the state's sales tax exemptions to include a sales tax holiday for sales of school supplies, school instructional materials, or school art supplies having a sales price of \$100 or less per item. The sales tax holiday would occur over a two-day period beginning on the first Friday in August at 12:01 a.m. and end at midnight on the following Saturday. The bill provides definitions for school supplies, school instructional materials, and school art supplies. The first sales tax holiday for school supplies would occur in August 2024.

The Department of Revenue estimates that SB 21 would have no impact on state or local sales tax receipts until FY 2025. This bill also is estimated to decrease local sales tax revenues beginning in FY 2025; 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	(\$400,000)	(\$400,000)	(\$400,000)	(\$400,000)
State Highway Fund	<u>(80,000)</u>	<u>(80,000)</u>	<u>(80,000)</u>	<u>(90,000)</u>
	(\$480,000)	(\$480,000)	(\$480,000)	(\$490,000)

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 \$1,195 on education. It is estimated that 25.0 percent of education purchases would qualify for exempt status during the

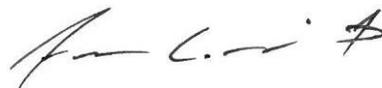
proposed sales tax holiday. Data from other states indicate there is an increase in purchases during a sales tax holiday that ranges from “slight” to a five-fold increase in purchases and corresponding decreases in sales volume before and after the holiday period as shoppers shift their purchases to take advantage of the sales tax holiday. For the Kansas sales tax holiday, it is assumed that sales during the two-day period would be quadruple the normal purchases, with corresponding decreases in sales volume before and after the sales tax holiday period.

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. 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 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 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. Any fiscal effect associated with SB 21 is not reflected in *The FY 2024 Governor’s Budget Report*.

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