



February 14, 2024

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 2546 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2546 is respectfully submitted to your committee.

HB 2546 would reduce the state retail sales tax and compensating use tax rate for food and food ingredients to 0.0 percent and would change the distribution of overall state sales and compensating use tax revenue to 82.0 percent to the State General Fund and 18.0 percent to the State Highway Fund on April 1, 2024. The bill would take effect upon publication in the *Kansas Register*. Under current law, the state retail sales tax rates specifically on food and food ingredients and the distribution of overall state sales and compensating use tax revenue are set to be adjusted 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	2.0	83.0	17.0
January 1, 2025	0.0	82.0	18.0

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
Expenditures			
State General Fund	\$2,550	--	--
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	\$2,550	--	--
Revenues			
State General Fund	(\$20,800,000)	(\$72,600,000)	--
State Highway Fund	(4,200,000)	(15,000,000)	--
School District Finance	--	--	--
Total Revenues	(\$25,000,000)	(\$87,600,000)	--
FTE Positions	--	--	--

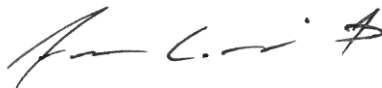
The Department of Revenue estimates that HB 2546 would decrease state revenues by \$25.0 million in FY 2024 and by \$87.6 million in FY 2025. Of those totals, the State General Fund is estimated to decrease by \$20.8 million in FY 2024 and by \$72.6 million in FY 2025, while the State Highway Fund is estimated to decrease by \$4.2 million in FY 2024 and by \$15.0 million in FY 2025. The bill would have no fiscal effect on local sales tax revenues.

To formulate the estimates of the sales tax exemption for food and food ingredients, the Department assumes that expenditures on food and food ingredients will be comparable to expenditures observed during calendar year 2023, the first year of the rate reduction. The fiscal note considers the three-year phase-out of state retail sales tax and compensating use tax rate for food and food ingredients that was enacted in 2022 HB 2106. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$2,550 from the State General Fund in FY 2024.

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.

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. The fiscal effect associated with HB 2546 is reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,



Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Brendan Yorkey, Department of Transportation