

March 15, 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 2281 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2281 is respectfully submitted to your committee.

HB 2281 would provide a sales tax exemption on all sales of tangible personal property or services, except sales of motor vehicles, to Kansas residents who are certified by the U.S. Department of Veterans Affairs to receive 100.0 percent disability compensation and considered to be permanently disabled. Sales qualifying for this exemption would be capped at \$100,000 per year for each qualifying person. The Department of Revenue would be required to issue an exemption certificate in the form of a driver's-license-size card to each eligible person that includes the veteran exemption identification number. This sales tax exemption would begin on January 1, 2024.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$15,700,000)	(\$18,900,000)
Expenditure	--	--	\$44,120	\$44,120
FTE Pos.	--	--	1.00	1.00

The Department of Revenue estimates that HB 2281 would decrease state revenues by a maximum of \$18.9 million in FY 2024. Of that total, the State General Fund is estimated to decrease by a maximum of \$15.7 million while the State Highway Fund is estimated to decrease by a maximum of \$3.2 million. This bill also is estimated to decrease local sales tax revenues; 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	(\$36,400,000)	(\$34,400,000)	(\$34,700,000)	(\$35,000,000)
State Highway Fund	<u>(7,700,000)</u>	<u>(7,500,000)</u>	<u>(7,600,000)</u>	<u>(7,700,000)</u>
	(\$44,100,000)	(\$41,900,000)	(\$42,300,000)	(\$42,700,000)

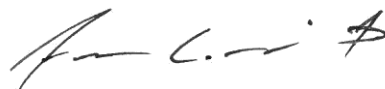
To formulate these estimates, the Department of Revenue reviewed veteran disability data from the Kansas Commission on Veterans Affairs. In 2022, there were 8,538 Kansas veterans that had a 100.0 percent disability compensation rating, and these estimates assume that each eligible veteran would use the maximum \$100,000 exemption each year. The estimate assumes that card holders will use the exemption on purchases of food and food ingredients to exempt those purchases from local sales tax and any existing state sales tax. For every \$10,000 in purchases subject to the full 6.5 percent state sales tax rate, excluding vehicles, the disabled veteran would save \$650 for not paying the state sales tax on those purchases. Under this scenario, the disabled veteran would also save unknown amounts of local sales taxes on those purchases depending on the local sales tax rate.

The Department of Revenue indicates that it would require a total of \$44,120 from the State General Fund in FY 2024 to hire 1.00 new FTE position to manage this new sales tax exemption program and to change forms and publications. The Department estimates that ongoing expenses for salaries and wages for the 1.00 FTE position would total \$61,947 from the State General Fund in FY 2025 and subsequent fiscal years.

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 2281 is not reflected in *The FY 2024 Governor's Budget Report*.

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.

Sincerely,



Adam 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