

February 12, 2013

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2174 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2174 is respectfully submitted to your committee.

HB 2174 would exclude cash rebates paid by a vehicle manufacturer to a purchaser or lessee of a new motor vehicle from the definition of “sales or selling price” as used for the calculation of sales tax on vehicles. The bill would take effect on July 1, 2013.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$2,490,000)	(\$3,050,000)
Expenditure	--	--	\$1,575	\$1,575
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2174 would decrease state revenues by \$3,050,000 in FY 2014. Of that amount, the State General Fund is estimated to decrease by \$2,490,000, while the State Highway Fund is estimated to decrease by \$560,000. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000
Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	(2,490)	1,949,510
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 2,490)	\$5,553,010
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 2,490)	\$5,461,810

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
State General Fund	(\$2,580,000)	(\$2,680,000)	(\$2,780,000)	(\$2,880,000)
State Highway Fund	<u>(580,000)</u>	<u>(600,000)</u>	<u>(630,000)</u>	<u>(650,000)</u>
	(\$3,160,000)	(\$3,280,000)	(\$3,410,000)	(\$3,530,000)

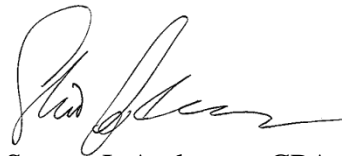
To formulate these estimates, the Department of Revenue reviewed data from the National Auto Dealers Association on new and used vehicle sales. The estimate is based on a vehicle cash rebate average of \$1,250 with approximately 50.0 percent of all new car purchases receiving a rebate. It is estimated that there are approximately 90,000 new car purchases in Kansas each year. If 50.0 percent of these sales include a \$1,250 rebate, the loss in state sales tax would be \$3,330,000. However, only 11 months of sales would be affected in FY 2014, or

\$3,050,000. It should be noted that the offering of rebates fluctuates from year to year. Retail sales tax estimates are based on a sales tax rate of 5.7 percent in FY 2014 and each future fiscal year. Sales tax collections are expected to increase by 3.75 percent in each future fiscal year.

The Department states that passage of this bill would require revisions to the sales tax publications and a notice of the changes to retailers at an estimated cost of \$1,575. This bill would also require modifications to the automated tax 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, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2174 is not reflected in *The FY 2014 Governor's Budget Report*.

The League of Kansas Municipalities indicates that the bill has the potential to reduce the amount of local sales tax collections. However, the League does not have data to be able to provide an accurate estimate of the amount of sales tax collections on cash rebates for car purchases to make a precise estimate of the fiscal effect on local governments. The League indicates that if lower sales tax revenues are generated as a result of HB 2174, then local governments would be required to offset this reduction by either increasing the local mill levy or by decreasing expenditures.

Sincerely,



Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Melissa Wangemann, Kansas Association of Counties
Larry Baer, League of Kansas Municipalities