

April 1, 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 2408 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2408 is respectfully submitted to your committee.

HB 2408 would provide a sales tax exemption for food and food ingredients. Food and food ingredients would include sales from vending machines, but would not include alcoholic beverages, prepared food, or tobacco. The bill provides specific definitions for food and food ingredients, food sold through vending machines, and prepared food. All sales of food and food ingredients would be exempt from all retail sales taxes beginning on July 1, 2013.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$291,200,000)	(\$357,000,000)
Expenditure	--	--	\$12,100	\$12,100
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2408 would decrease state revenues by \$357.0 million in FY 2014. Of those totals, the State General Fund is estimated to decrease by \$291.2 million in FY 2014, while the State Highway Fund is estimated to decrease by \$65.8 million in FY 2014. This bill is also estimated to decrease local sales tax revenues by \$89.2 million in FY 2014. 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	(291,200)	1,660,800
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	(\$ 291,200)	\$5,264,300
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	(\$ 291,200)	\$5,173,100

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	(\$302,200,000)	(\$313,500,000)	(\$325,250,000)	(\$337,400,000)
State Highway Fund	<u>(68,200,000)</u>	<u>(70,800,000)</u>	<u>(73,450,000)</u>	<u>(76,200,000)</u>
	(\$370,400,000)	(\$384,300,000)	(\$398,700,000)	(\$413,600,000)

To formulate these estimates, the Department of Revenue reviewed data from the Consumer Expenditure Survey published by the Bureau of Labor Statistics of the U.S. Department of Labor, state sales tax reports, and from historical data that shows the average household spends 15.0 percent of its taxable income on food and food ingredients. Based on this data, the reduction in state sales tax revenue from food and food ingredients is estimated to be a total of \$353.0 million. Exempting vending machine sales of food and food ingredients is estimated to reduce state sales tax revenues by \$4.0 million based on Department estimates. Therefore, the net fiscal effect of the bill is estimated to reduce state sales tax revenues by \$357.0

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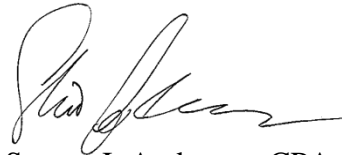
million in FY 2014 (\$353.0 million + \$4.0 million). The Department of Revenue indicates the bill would require \$12,100 from the State General Fund in FY 2014 for administrative costs to update forms and publications.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. KDOT indicates the reduction in revenues would require reductions and/or delays to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS. KDOT also indicates that the reduction in revenue may require it to increase the amount of bonds that it plans to issue under its current bonding authority in order to complete planned projects.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would reduce the amount of local sales tax revenues that are currently collected from food and food ingredients beginning in FY 2014. However, the League of Kansas Municipalities and the Kansas Association of Counties do not have data on the amount of sales taxes that are collected on these items to make a precise estimate of the fiscal effect on local governments.

Retailers that sell food and food ingredients would be required to reprogram cash registers to ensure that sales taxes are being collected on items that should be and not collected on items that would be exempted under HB 2408. Any fiscal effect associated with HB 2408 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

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

cc: Steve Neske, Revenue
Ben Cleeves, KDOT
Larry Baer, LKM
Melissa Wangemann, KAC