

March 10, 2014

The Honorable Richard Carlson, Chairperson  
House Committee on Taxation  
Statehouse, Room 185-N  
Topeka, Kansas 66612

Dear Representative Carlson:

**SUBJECT:** Fiscal Note for HB 2730 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2730 is respectfully submitted to your committee.

HB 2730 would require revenue collected as a result of the federal Marketplace Fairness Act to be identified and distributed to counties and cities. The Marketplace Fairness Act requires remote sellers (Internet sales) to collect and remit retail sales and compensating use taxes on sales made into Kansas. The Department of Revenue would be required to estimate the amount of retail sales and compensating use taxes that are collected from remote sales as a result of the Marketplace Fairness Act. The amount collected would be transferred from the State General Fund to the newly created Marketplace Fairness Revenue Sharing Fund on July 15th and December 10th of each year. The State Treasurer would be responsible for determining the amounts distributed from the Marketplace Fairness Revenue Sharing Fund to each city and county. The distribution would be based on population (65.0 percent) and equalized assessed tangible valuations (35.0 percent). The county would retain 50.0 percent of the amount with the remaining distributed to the cities in the county based on population. The population of Fort Riley Military Reservation would not be included in the population of any city located within Riley County or Geary County.

The bill sets the initial baseline amount of retail sales and compensating use tax revenue from the first full year of collections from additional remote sales as a result of the Marketplace Fairness Act at \$67.5 million. This amount could be adjusted if analysis performed by the Department of Revenue shows that this amount is unreasonably inconsistent. The baseline amount of revenue would grow by 5.0 percent each year unless the Department of Revenue determines another percentage would be reasonable based on the analysis of the data. The estimate of revenue would be provided to the State Treasurer before May 15th of each year.

The Department of Revenue estimates that HB 2730 has the potential to decrease State General Fund revenues by approximately \$60.0 million in FY 2017. The estimate is based on the Department's review of current language in the Marketplace Fairness Act. The \$60.0 million estimate represents the amount that would be credited to the State General Fund from the taxes collected from remote sales in calendar year 2015, which would be distributed to local governments

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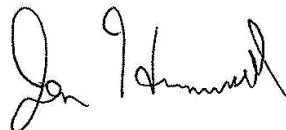
from the Marketplace Fairness Revenue Sharing Fund in July 2016. The Department of Revenue indicates that if Congress passes the Marketplace Fairness Act in the next couple of months, then there could be a small amount of collections in calendar year 2014 that cities and counties would receive in July 2015 (FY 2016). The Department of Revenue estimates that local governments would also receive an estimated \$22.5 million in FY 2017 from local retail sales and compensating use taxes that are collected from remote sellers as a result of Congress passing the Marketplace Fairness Act. The actual amount may be considerably less or more depending on the final version of the Marketplace Fairness Act. The Department also indicates that as more retailers voluntarily collect and remit the taxes on remote sales, the overall impact that would be specifically attributed to the Marketplace Fairness Act would be reduced. The Department of Revenue indicates the costs associated with estimating the amount of taxes collected from the Marketplace Fairness Act would be negligible and could be absorbed within existing resources.

The State Treasurer indicates that it would require \$5,000 from the State General Fund in FY 2015 for computer programming costs to determine the amounts that are distributed to local governments from the Marketplace Fairness Revenue Sharing Fund based on the formula detailed in the bill. The State Treasurer would be required to create a new database and program a payment system to ensure the funds are distributed correctly. The State Treasurer indicates that once the system is in place, the costs associated with updating and maintaining the system on an annual basis would be negligible and could be absorbed within existing resources and staff levels.

The Kansas Department of Transportation indicates the bill would have no fiscal effect on the State Highway Fund. Any fiscal effect associated with HB 2730 is not reflected in *The FY 2015 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties both indicate the bill has the potential to increase revenues for local governments. However, the League of Kansas Municipalities and the Kansas Association of Counties are unable to estimate the fiscal effect on local governments.

Sincerely,



Jon Hummell,  
Interim Director of the Budget

cc: Ben Cleeves, Transportation  
Derek Kreifels, Treasurer's Office  
Steve Neske, Department of Revenue  
Melissa Wangemann, Association of Counties  
Larry Baer, League of Municipalities