

# STATE OF KANSAS

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GOVERNOR JEFF COLYER, M.D.  
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

March 12, 2018

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2616 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2616 is respectfully submitted to your committee.

HB 2616 would reduce the state retail sales tax and compensating use tax rate for food and food ingredients from 6.5 percent to 3.25 percent beginning on July 1, 2018. Food and food ingredients are defined as substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value. Food and food ingredients would not include alcoholic beverages, candy, soft drinks, food sold through vending machines, dietary supplements, or tobacco. The bill provides specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The 3.25 percent retail sales tax and compensating use tax on food and food ingredients would be distributed the same as the current 6.5 percent distribution: 83.846 percent to the State General Fund and 16.154 percent to the State Highway Fund.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	(\$163,300,000)	(\$194,700,000)
Expenditure	--	--	Unknown	Unknown
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2616 would decrease state revenues by \$194.7 million in FY 2019. Of that total, the State General Fund is estimated to decrease by \$163.3 million in FY 2019, while the State Highway Fund is estimated to decrease by \$31.4 million in FY

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2019. This bill would have no effect on local sales tax revenues. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State General Fund	(\$181,500,000)	(\$185,000,000)	(\$188,500,000)
State Highway Fund	<u>(35,000,000)</u>	<u>(35,600,000)</u>	<u>(36,300,000)</u>
	(\$216,500,000)	(\$220,600,000)	(\$224,800,000)

The estimate assumes that 15.0 percent of all current sales tax collections are collected on food and food ingredients. The Department indicates that with previous changes to the state retail sales tax rates, there is a one-month lag from the time that the rate change becomes effective and when the revenues are collected. The Department indicates that FY 2019 would include one month of revenue at the current rate on food and food ingredients effective in FY 2018 and 11 months of revenue at the proposed new rate on food and food ingredients. The Department of Revenue indicates that State General Fund estimates for FY 2019 are based on the November 2017 Consensus Revenue Estimate. State General Fund revenues in the out years assume a 1.9 percent annual growth rate.

The Department of Revenue indicates that it is unable to determine the administration costs to implement the reduced sales tax rate on food and food ingredients. The Department indicates that it would be required to update forms, publications, and to modify the sales tax collection system at an unknown cost. The current composite jurisdiction sales tax system does not accommodate a second state sales tax rate. The Department is exploring alternatives to correct this situation.

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, known as T-WORKS. Any fiscal effect associated with HB 2616 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell  
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue  
Ben Cleeves, Transportation  
Chardae Caine, League of Municipalities  
Melissa Wangemann, Association of Counties