

STATE OF KANSAS



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

March 5, 2018

The Honorable Caryn Tyson, Chairperson
 Senate Committee on Assessment and Taxation
 Statehouse, Room 123-E
 Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 367 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 367 is respectfully submitted to your committee.

SB 367 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 exclude third party price reductions in the selling price of a product (manufacturer coupons) from the calculation of sales tax. The bill would take effect on July 1, 2018.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	(\$4,980,000)	(\$5,940,000)
Expenditure	--	--	\$2,200	\$2,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 367 would decrease state revenues by \$5,940,000 in FY 2019. Of that total, the State General Fund is estimated to decrease by \$4,980,000 in FY 2019, while the State Highway Fund is estimated to decrease by \$960,000 in FY 2019. 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 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State General Fund	(\$5,540,000)	(\$5,640,000)	(\$5,750,000)
State Highway Fund	<u>(1,070,000)</u>	<u>(1,090,000)</u>	<u>(1,110,000)</u>
	(\$6,610,000)	(\$6,730,000)	(\$6,860,000)

To formulate the estimates for excluding new vehicle cash rebates from the calculation of sales tax, the Department of Revenue reviewed data from the National Auto Dealers Association

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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 105,000 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 approximately \$4,270,000. However, only 11 months of sales would be affected in FY 2019, or \$3,910,000. It should be noted that the offering of rebates fluctuates from year to year.

To formulate the estimates for excluding manufacturer coupons from the calculation of sales tax, the Department of Revenue reviewed national data on the use of coupons. According to industry data, \$3.4 billion coupons are redeemed in the U.S. annually. Assuming that Kansas represents approximately 1.0 percent of the national economy, Kansans redeem approximately \$34.0 million in coupons each year. This would result in a loss of approximately \$2,210,000 in state sales tax revenue annually. For FY 2019, only 11 months of receipts are affected, or \$2,030,000. 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 the bill has the potential to place Kansas out of compliance with the Streamlined Sales and Use Tax Agreement with new language dealing with manufacturer coupons. The Department of Revenue estimates that more than \$14.0 million in revenues annually could be at risk and may no longer be received if Kansas loses its member status, as other members would no longer be contractually required to remit retail sales and compensating use taxes to Kansas. According to the Department of Revenue, reissuing sales tax publications would cost \$2,200 from the State General Fund in FY 2019.

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.

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. Any fiscal effect associated with SB 367 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Chief Budget Officer

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