

STATE OF KANSAS



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

March 19, 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 2748 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2748 is respectfully submitted to your committee.

HB 2748 would reduce and phase out the state retail sales tax and compensating use tax rate for food and food ingredients over a three-year period. Food and food ingredients would be 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 would provide specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The bill would adjust the state retail sales tax and compensating use tax rates on food and food ingredients as follows:

<u>Date of Rate Change</u>	<u>Tax Rate</u>
Current law	6.5 %
January 1, 2019	4.0
January 1, 2020	2.0
January 1, 2021	--

The reduction and phase out of retail sales and compensating use tax rates on food and food ingredients would not affect the current distribution of this revenue: 83.846 percent to the State General Fund and 16.154 percent to the State Highway Fund. Once the state sales tax is eliminated on food and food ingredients on January 1, 2021, local governments would no longer be able to charge a local sales tax on food and food ingredients.

The Department of Revenue estimates that HB 2748 would decrease state revenues by \$68.1 million in FY 2019. Of that total, the State General Fund is estimated to decrease by \$57.1 million in FY 2019, while the State Highway Fund is estimated to decrease by \$11.0 million in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

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	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
State General Fund	(\$186,200,000)	(\$303,500,000)	(\$376,900,000)
State Highway Fund	<u>(35,800,000)</u>	<u>(58,500,000)</u>	<u>(72,700,000)</u>
	(\$222,000,000)	(\$362,000,000)	(\$449,600,000)

This bill would not have a fiscal effect on local sales tax revenues until after January 1, 2021, when local governments would no longer be able to charge a local sales tax on food and food ingredients; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue. The Streamlined Sales Tax Agreement requires once a taxable item is fully exempt from state sales taxes, it would also be exempt from local sales taxes. The Department indicates that State General Fund estimates for FY 2019 are based on the November 2017 Consensus Revenue Estimate. The estimate assumes that 15.0 percent of all current sales tax collections are collected on food and food ingredients. 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.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net decrease to local sales tax collections that are used in part to finance local governments beginning on January 1, 2021. Any fiscal effect associated with HB 2748 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