

February 1, 2021

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 70 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 70 is respectfully submitted to your committee.

Under current law, cash rebates paid by a vehicle manufacturer to a purchaser or lessee of a new motor vehicle are excluded from the definition of “sales or selling price” as used for the calculation of sales tax on vehicles through June 30, 2021. SB 70 would make this sales tax exemption permanent. The bill would exclude third party price reductions in the selling price of a product (manufacturer coupons) from the calculation of sales tax beginning on July 1, 2021.

Estimated State Fiscal Effect				
	FY 2021 SGF	FY 2021 All Funds	FY 2022 SGF	FY 2022 All Funds
Revenue	--	--	(\$5,200,000)	(\$6,200,000)
Expenditure	--	--	\$3,200	\$3,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 70 would decrease state revenues by \$6.2 million in FY 2022. Of that total, the State General Fund is estimated to decrease by \$5.2 million in FY 2022, while the State Highway Fund is estimated to decrease by \$1.0 million in FY 2022. 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 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State General Fund	(\$5,200,000)	(\$5,300,000)	(\$5,300,000)	(\$5,300,000)
State Highway Fund	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,100,000)</u>	<u>(1,100,000)</u>
	(\$6,200,000)	(\$6,300,000)	(\$6,400,000)	(\$6,400,000)

To formulate these estimates on excluding cash rebates on vehicles from the calculation of sales tax, the Department of Revenue reviewed data on new vehicle sales and leases that occurred in Kansas. The Department estimates that the current sales tax exemption on certain cash rebates on new vehicle sales and leases reduces state sales tax revenues by \$4.5 million in FY 2022, including \$3.8 million from the State General Fund and \$700,000 from the State Highway Fund. It should be noted that the offering of vehicle rebates fluctuates from year to year. The fiscal effect to state revenues during subsequent years from excluding cash rebates on vehicles from the calculation of sales tax, would be as follows:

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State General Fund	(\$3,800,000)	(\$3,900,000)	(\$3,900,000)	(\$3,900,000)
State Highway Fund	<u>(700,000)</u>	<u>(700,000)</u>	<u>(800,000)</u>	<u>(800,000)</u>
	(\$4,500,000)	(\$4,600,000)	(\$4,700,000)	(\$4,700,000)

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, \$3.1 billion coupons are redeemed in the U.S. annually. Assuming that Kansas represents approximately 1.0 percent of the national economy, Kansans redeem approximately \$31.0 million in coupons each year. This would result in a loss of approximately \$1.7 million in state sales tax revenue in FY 2022, including \$1.4 million from the State General Fund and \$300,000 from the State Highway Fund. The fiscal effect to state revenues during subsequent years from excluding manufacturer coupons from the calculation of sales tax, would be as follows:

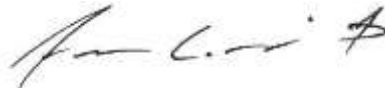
	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State General Fund	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)	(\$1,400,000)
State Highway Fund	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>
	(\$1,700,000)	(\$1,700,000)	(\$1,700,000)	(\$1,700,000)

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 \$41.3 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. The Department indicates that the bill would require \$3,200 from the State General Fund in FY 2022 to update sales tax forms and publications, and to notify vehicle dealers,

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.

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 70 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation
Wendi Stark, League of Municipalities
Jay Hall, Association of Counties