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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

February 15, 2013

The Honorable Marvin Kleeb, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2255 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2255 is respectfully submitted to your committee.

HB 2255 would allow companies purchasing telecommunication machinery and equipment after July 1, 2013 to request a sales tax refund on these purchases. The refund claim must be submitted within three years from the date of payment of the sales tax. The bill specifies that no interest would be paid on the refund claim and the bill would not provide a refund for any city or county sales taxes that are paid. The bill defines telecommunication machinery and equipment as "machinery, equipment and network software that is capable of directly sending, receiving or storing voice or data communications or used to enable, facilitate, maintain or monitor a telecommunications network." The bill also provides a list of telecommunications machinery and equipment that would specifically qualify for the sales tax refund. The Department of Revenue would be required to review and report the additional investment and related economic impact of this tax expenditure to the Speaker of the House, the Senate President, and the chairs of the House and Senate Commerce Committees on or before January 3l, 2018.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	($16,500,000)	($16,500,000)
Expenditure	--	--	$174,700	$174,700
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2255 would decrease State General Fund revenues by $16.5 million in FY 2014. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	$ 39,000	$ --	$ 39,000
Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	(16,500)	1,935,500
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	151,500	--	151,500
Total Taxes	$5,555,500	($ 16,500)	$5,539,000
Other Revenues:			
Interest	$ 9,700	$ --	$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	55,000	--	55,000
Total Other Revenues	($ 91,200)	$ --	($ 91,200)
Total Receipts	$5,464,300	($ 16,500)	$5,447,800

The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2015	FY 2016	FY 2017	FY 2018
State General Fund	($17,100,000)	($17,800,000)	($18,400,000)	($19,100,000)

To formulate these estimates, the Department of Revenue reviewed data from a study commissioned by the telecommunication industry named “Assessment of the Economic Impact of Taxation on Communications Investment in the United States.” It is estimated that providing a sales tax refund for certain expenditures by the telecommunication industry would reduce State General Fund revenues by $14.0 million in each fiscal year based on the 2010 data provided in the study. However, the Department identified areas in which the study may not have captured all purchases that would be exempt by this bill and increased the estimate by $2.5 million, for a total fiscal effect on the State General Fund of $16.5 million in FY 2014. The estimate does not include the amount of sales taxes paid on certain machinery and equipment purchases made by satellite companies involved with telecommunications, which has the potential to reduce State General Fund revenues by an additional $2.0 million per fiscal year.

The Department of Revenue indicates the bill would require $174,700 from the State General Fund in FY 2014 for administrative costs and to modify the sales tax processing system. The required programming for this bill by itself (4,000 hours of in-house programming and implementation) would be performed by existing staff of the Department of Revenue at a cost of $140,000. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required. The Department indicates that the bill would require it to hire 1.00 FTE Auditor position to process and track sales tax refund requests. The Department indicates that it would hire the position in the second half of the fiscal year at a cost of $29,500 for salaries and wages and $5,200 for one-time initial costs. Annual recurring costs for this staff person would be $59,077 in FY 2015 and in each future fiscal year. Any fiscal effect associated with HB 2255 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Tom Day, KCC
Steve Neske, Revenue