

February 24, 2014

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

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2607 by Representative Powell, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2607 is respectfully submitted to your committee.

HB 2607 would expand the state's sales tax exemptions to include a sales tax holiday for school supplies. The sales tax holiday would occur on the first Thursday in August at 12:01 a.m. and end at midnight on the following Sunday. The bill would exempt all sales of:

1. Any article of clothing having a taxable value of \$300 or less;
2. All back-to-school supplies not to exceed \$100 per purchase;
3. All computer software with a taxable value of \$300 or less; and
4. All personal computers or computer peripheral devices not to exceed \$2,000.

The bill provides definitions for clothing, personal computers, and school supplies. The bill also lists specific items that would not qualify for the sales tax holiday for school supplies. The first sales tax holiday for schools supplies would occur in August 2014.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	(\$4,540,000)	(\$5,470,000)
Expenditure	--	--	\$50,000	\$50,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2607 would decrease state revenues by \$5,470,000 in FY 2015. Of that total, the State General Fund is estimated to decrease by \$4,540,000 in FY 2015, while the State Highway Fund is estimated to decrease by \$930,000 in FY 2015. This bill also is estimated to decrease local revenues by \$1,370,000 in FY 2015. The

decrease in revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates  
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	\$ 24,000	\$ --	\$ 24,000
Income Taxes:			
Individual	2,525,000	--	2,525,000
Corporate	380,000	--	380,000
Financial Institutions	34,500	--	34,500
Excise Taxes:			
Retail Sales	2,160,000	(4,540)	2,155,460
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	<u>161,700</u>	<u>--</u>	<u>161,700</u>
Total Taxes	\$5,975,200	(\$ 4,540)	\$5,970,660
Other Revenues:			
Interest	\$ 10,000	\$ --	\$ 10,000
Transfers	(118,000)	--	(118,000)
Agency Earnings	<u>49,900</u>	<u>--</u>	<u>49,900</u>
Total Other Revenues	(\$ 58,100)	\$ --	(\$ 58,100)
Total Receipts	\$5,917,100	(\$ 4,540)	\$5,912,560

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

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	(\$4,710,000)	(\$4,880,000)	(\$5,070,000)	(\$5,260,000)
State Highway Fund	(970,000)	(1,010,000)	(1,040,000)	(1,080,000)
Local Governments	<u>(1,420,000)</u>	<u>(1,470,000)</u>	<u>(1,530,000)</u>	<u>(1,580,000)</u>
	(\$7,100,000)	(\$7,360,000)	(\$7,640,000)	(\$7,920,000)

To formulate these estimates, the Department of Revenue reviewed data on state sales tax collections and consumer expenditure data. Consumer expenditure data from the U.S. Department of Labor show that the average mid-western household annually spends \$1,564 on clothing and \$1,180 on education. It is estimated that 75.0 percent of the clothing and 25.0 percent of the education purchases would qualify for exempt status during the proposed sales tax

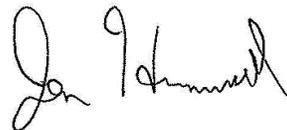
holiday. The Department estimates that sales tax collections from computer-related expenditures at electronic stores totaled \$7,260,000 in FY 2013 based on data from the state sales tax collections report. These collections are estimated to represent 10.0 percent of the total sales tax from computer equipment and software. Of that total, it is estimated that 75.0 percent would qualify for exempt status during the sales tax holiday. Data from other states indicate there is an increase in purchases during a sales tax holiday that ranges from “slight” to a five-fold increase in purchases. For the Kansas holiday, it is assumed that sales during the five-day period would be at least triple the normal purchases.

The Department of Revenue indicates it would require \$50,000 from the State General Fund in FY 2015 to implement the sales tax holiday. The costs include the development of a sales tax holiday publication to be made available to retailers and computer processing changes that will allow retailers to report the exemption for tracking by the Department. The cost estimate does not include any expenses for administering the sales tax holiday, which according to other states can create substantial additional workload. Retailers would contact the Department on tax issues and on how to track and report the exempted sales. Consumers would call about the eligibility of specific items, as well as other topics. However, it is assumed that the Department would be able to handle the additional workload within its current budgetary limits.

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 is 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 2607 is not reflected in *The FY 2015 Governor’s Budget Report*.

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.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being more prominent than the last name "Hummell".

Jon Hummell,  
Interim Director of the Budget

cc: Steve Neske, Revenue  
Ben Cleaves, KDOT  
Larry Baer, LKM  
Melissa Wangemann, KAC