

March 23, 2017

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2238 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2238 is respectfully submitted to your committee.

HB 2238 would expand the current sales tax exemption on farm machinery and equipment to include the following items used in an agricultural production operation: an articulating boom lift, ladder, scaffold, bulldozer, loader, excavator, back hoe, road grader, wheel tractor-scraper, skid-steer loader, forklift truck, electric fence, and electric fence components. The sales tax exemption would be applied retroactively beginning on January 1, 2015. The bill would also change the name of the farm machinery and equipment exemption to the farm production machinery and equipment exemption.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	(\$19,520,000)	(\$23,280,000)	(\$6,510,000)	(\$7,760,000)
Expenditure	\$3,400	\$3,400	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2238 would decrease state revenues by \$23,280,000 in FY 2018 and by \$7,760,000 in FY 2019. Of those totals, the State General Fund is estimated to decrease by \$19,520,000 in FY 2018 and by \$6,510,000 in FY 2019, while the State Highway Fund is estimated to decrease by \$3,760,000 in FY 2018 and by \$1,250,000 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.

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March 23, 2017

Page 2—HB 2238

To formulate these estimates, the Department of Revenue reviewed data on the current farm machinery and equipment exemption. Under current law, this exemption is estimated to reduce state sales tax receipts by approximately \$155,130,000 in FY 2018. The Department estimates that the additional items added to this exemption in the bill would increase the state sales tax exemption amount by an additional 5.0 percent, or approximately \$7,760,000. The bill is retroactive to begin in tax year 2015, which would require an additional two years of refund requests to be processed in FY 2018. The bill is estimated to reduce state sales tax collections by a total of \$23,280,000 in FY 2018, including \$7,760,000 for purchases of the exempted items during FY 2018 and \$15,520,000 for two years of refund requests. For FY 2019, the bill is estimated to reduce state sales tax collections by \$7,760,000 for purchases of the exempted items during FY 2019. According to the Department of Revenue, reissuing sales tax publications and revising the agriculture exemption certificate would cost \$3,400 from the State General Fund in FY 2018.

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 HB 2238 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

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