

January 25, 2023

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2108 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2108 is respectfully submitted to your committee.

HB 2108 would create a sales tax holiday for back-to-school related sales of certain items. 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 back-to-school related sales of:

1. Any article of clothing or clothing accessories with a sales price of \$300 or less per item;
2. All school supplies, school instructional materials, or school art supplies with a sales price of \$100 or less per item;
3. All prewritten computer software with a sales price of \$300 or less per item; and
4. All computers or school computer supplies with a sales price of \$2,000 or less per item.

The bill provides definitions for clothing, clothing accessories or equipment, school supplies, school instructional materials, school art supplies, school computer supplies, and other items used to implement the back-to-school sales tax holiday. The first back-to-school sales tax holiday would occur in August 2023.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2023 SGF | FY 2023 All Funds | FY 2024 SGF | FY 2024 All Funds |
| Revenue | -- | -- | (\$5,400,000) | (\$6,500,000) |
| Expenditure | -- | -- | \$1,800 | \$1,800 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that HB 2108 would decrease state revenues by \$6.5 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$5.4 million in FY 2024, while the State Highway Fund is estimated to decrease by \$1.1 million in FY 2024. 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 2025</u> | <u>FY 2026</u> | <u>FY 2027</u> | <u>FY 2028</u> |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| State General Fund | (\$5,600,000) | (\$5,600,000) | (\$5,600,000) | (\$5,700,000) |
| State Highway Fund | <u>(1,100,000)</u> | <u>(1,200,000)</u> | <u>(1,300,000)</u> | <u>(1,300,000)</u> |
| | (\$6,700,000) | (\$6,800,000) | (\$6,900,000) | (\$7,000,000) |

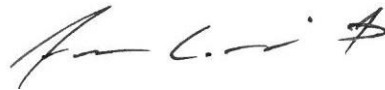
To formulate these estimates, the Department of Revenue reviewed data on state sales tax collections and consumer expenditure data. Consumer expenditure data from the U.S. Department of Labor show that the average Midwestern household annually spends \$1,749 on clothing and \$1,159 on education. It is 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 \$53.3 million in FY 2022 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. 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 and corresponding decreases in sales volume before and after the holiday period as shoppers shift their purchases to take advantage of the sales tax holiday. For the Kansas sales tax holiday, it is assumed that sales during the four-day period would be at least triple the normal purchases, with corresponding decreases in sales volume before and after the sales tax holiday period.

The Department indicates that the bill would require \$1,800 from the State General Fund in FY 2024 to update sales tax forms and publications. Experiences from other states point to the need for an extensive guidebook on what purchases are exempt, how to report the exempt sales, and provide other sales tax holiday instructional material. The Department anticipates there will be extensive questions and concerns from retailers that will result in allocation of available resources to administer the holiday vs. performing other duties. Any additional personnel expenses that may be required to implement the bill are not included in the fiscal note.

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 fiscal effect associated with HB 2108 is reflected in *The FY 2024 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. The bill also has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact this bill would have on the viability of those projects.

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
Brendan Yorkey, Department of Transportation
Wendi Stark, League of Kansas Municipalities
Jay Hall, Kansas Association of Counties