

February 14, 2024

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 2566 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2566 is respectfully submitted to your committee.

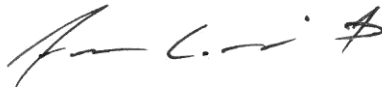
Under current law, retailers are required to use destination-based sourcing to calculate the local retail sales and compensating use tax rates at the location where the purchaser receives the item that is sold. HB 2566 would require retailers to use origin-based sourcing to calculate the local retail sales and compensating use tax rates at the location where the seller receives the order for the item that is sold.

The Department of Revenue estimates that HB 2566 would have no fiscal effect on state revenues. The bill would change the distribution of local retail sales and compensating use tax revenues between local governments; however, the Department does not have data to provide a specific fiscal effect on each local government that would increase or decrease local revenues as a result of this bill. The bill would require additional programming costs for retailers to use origin-based sourcing to calculate the local retail sales and compensating use tax rates. The majority of states in the Streamlined Sales Tax Agreement embrace destination sourcing as a uniform policy, and switching to origin-based sourcing has the potential for unintended consequences. The Department indicates that the bill would require \$3,600 from the State General Fund in FY 2025 to update sales tax publications. Any fiscal effect associated with HB 2566 is not reflected in *The FY 2025 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate the bill would have a different fiscal effect on each specific local government based on the amount of retail and commercial business activity occurring in each city or county. Areas that have

significant retail and commercial businesses would likely receive additional local sales tax revenues, whereas areas that lack significant retail or commercial businesses would likely experience a decrease in local sales tax revenue.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt". The signature is fluid and cursive, with a distinct flourish at the end.

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities
Brendan Yorkey, Department of Transportation