March 13, 2019

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

Dear Representative Johnson:

SUBJECT:  Fiscal Note for HB 2349 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2349 is respectfully submitted to your committee.

HB 2349 would amend the definition of “retailer doing business in this state” in the Kansas Compensating Tax Act. The bill would specify that the definition would include retailers that had any gross receipts from sales to Kansas customers in the preceding calendar year. The bill requires that any retailer that has any gross receipts from sales to Kansas customers in the preceding calendar year would have nexus with Kansas and would be required to collect and remit taxes.

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<tr>
<th>Estimated State Fiscal Effect</th>
<th>FY 2019 SGF</th>
<th>FY 2019 All Funds</th>
<th>FY 2020 SGF</th>
<th>FY 2020 All Funds</th>
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<tbody>
<tr>
<td>Revenue</td>
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<td>--</td>
<td>$4,200,000</td>
<td>$5,000,000 to $10,000,000</td>
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<td>Expenditure</td>
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<td>$505,788</td>
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The Department of Revenue estimates that HB 2349 would increase state revenues by at least $5.0 million and up to $10.0 million in FY 2020. Of those amounts, the State General Fund is estimated to increase by between $4.2 million and $8.4 million, while the State Highway Fund is estimated to increase by between $800,000 and $1.6 million in FY 2020. This bill also is estimated to increase local sales tax revenues; however, the specific estimate of higher local sales tax revenues was not calculated by the Department of Revenue.

To formulate the estimates for increased sales tax authority from out-of-state remote sellers, the Department of Revenue reviewed data from the U.S. Government Accountability Office (GAO) that released a study on sales taxes in November 2017. The report shows that Kansas has the potential to receive an additional $113.0 million to $170.0 million each year in
increased state and local sales tax collections with expanded collection authority with out-of-state remote sellers. The formation of this fiscal note used the lower estimate from GAO. The numbers quoted from GAO include both state and local sales tax collections and the amounts that the state already receives from Streamlined Sales Tax Volunteer Filers. Making these adjustments, the Department of Revenue estimates that Kansas could potentially receive $70.9 million with expanded sales tax collection authority, including $59.4 million to the State General Fund and $11.5 million to the State Highway Fund. However, it could be a number of years before the state would increase collections to those levels, plus language in the bill would not specifically compel marketplace facilitators to collect the sales tax. The Department indicates that the state would likely collect between $5.0 million to $10.0 million in FY 2020 under the provisions of the bill. The amount collected would likely increase in future fiscal years; however, the Department does not enough information to provide a precise estimate of the additional revenue that would be collected in FY 2021 or any future fiscal years.

The Department of Revenue indicates that it would require a total $505,788 from the State General Fund in FY 2020 to implement the bill and to modify the sales tax system. The bill would require the Department to hire 8.00 new FTE positions to review, process, and audit additional sales tax returns. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue and outside contract programmer services. In addition, 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, additional expenditures for outside contract programmer services beyond the Department’s current budget may be required.

The Kansas Department of Transportation indicates that the bill would increase state revenues to the State Highway Fund as noted above. The additional revenues would fund additional 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 increase to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2349 is not reflected in The FY 2020 Governor’s Budget Report.

Sincerely,

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
    Ben Cleeves, Transportation
    Chardae Caine, League of Municipalities
    Jay Hall, Association of Counties