

February 16, 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 2162 by Representative V. Miller, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2162 is respectfully submitted to your committee.

HB 2162 would provide a sales tax exemption for certain hygiene products beginning on July 1, 2023. The hygiene products would include antiperspirants, cotton swabs, dental floss, deodorants, diapers, interdental cleaners, menstrual cups, mouthwash, panty liners, sanitary napkins, shampoo, soaps and cleaning solutions, suntan lotions, suntan screens, tampons, toilet tissues, toothbrushes, and toothpaste.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$16,700,00)	(\$20,100,000)
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2162 would decrease state revenues by \$20.1 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$16.7 million in FY 2024, while the State Highway Fund is estimated to decrease by \$3.4 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	(\$18,200,000)	(\$18,300,000)	(\$18,500,000)	(\$18,700,000)
State Highway Fund	<u>(3,900,000)</u>	<u>(4,000,000)</u>	<u>(4,100,000)</u>	<u>(4,100,000)</u>
	(\$22,100,000)	(\$22,300,000)	(\$22,600,000)	(\$22,800,000)

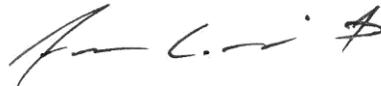
To formulate these estimates, the Department of Revenue reviewed data from the U.S. Bureau of Labor Statistics Consumer Expenditure Survey and the Kansas Department of Health and Environment. The Department indicates that the bill includes definitions of hygiene products that are inconsistent with the approved definitions in the Streamlined Sales and Use Tax Agreement. Those inconsistencies have the potential to cause compliance issues. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,200 from the State General Fund in FY 2024.

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 2162 is partially reflected in *The FY 2024 Governor's Budget Report*. The sales tax exemption for diapers and feminine hygiene products included in *The FY 2024 Governor's Budget Report* includes fewer items which reduces the fiscal effect. In addition, the Governor's tax policy recommendation would take effect three months earlier on April 1, 2023.

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,



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