

February 27, 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 2199 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2199 is respectfully submitted to your committee.

HB 2199 would authorize disabled veterans with a disability rating of 100.0 percent to receive a sales tax exemption on the purchase of up to two motor vehicles during their lifetime. A surviving spouse of a qualified disabled veteran would be able to continue to be eligible for this sales tax exemption unless the surviving spouse remarries. The sales tax exemption would begin retroactively on and after January 1, 2023.

The Department of Revenue estimates that HB 2199 would decrease state and local sales tax revenues by unknown amounts beginning in FY 2024. The bill allows the sales tax exemption to apply to vehicles purchased after January 1, 2023; however, any vehicle purchased after January 1, 2023, and before the effective date of the bill on July 1, 2023, would be eligible for a refund of the sales taxes that were paid during this period beginning on July 1, 2023. The state funds directly affected by this bill are the State General Fund and the State Highway Fund. However, the Department does not have sufficient information on when a qualified disabled veteran would be purchasing a first or second vehicle with this exemption or the sales tax liability on those purchases to make a precise estimate of the amount of reduced state and local sales tax revenues under the provisions of the bill. According to the Kansas Commission on Veterans Affairs, in 2022, 8,538 Kansas veterans had a 100.0 percent disability compensation rating. Each of these disabled veterans using this exemption twice during his or her lifetime would result in over 17,000 vehicle purchases exempt from sales tax.

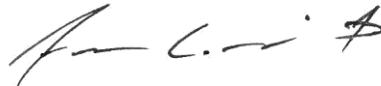
The Department of Revenue indicates that it would require a total \$73,553 from the State General Fund in FY 2024 to implement the bill, including IT system changes and to update forms and publications. The bill would require the Department to hire 1.00 new FTE position to answer questions from taxpayers and to audit compliance. The Department estimates that ongoing

expenses for salaries and wages for the 1.00 FTE position and overhead expenses would total \$66,947 from the State General Fund in FY 2025.

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. Any fiscal effect associated with HB 2199 is not reflected in *The FY 2024 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill has the potential to decrease local sales tax revenues 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: Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities
Lynn Robinson, Department of Revenue