

February 8, 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 2229 by Representatives Turner and Resman

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2229 is respectfully submitted to your committee.

Under current law, the sales tax for a vehicle is calculated by subtracting the value of a trade-in vehicle from the purchased price of a new or used vehicle as long as the transactions are from the same dealer. HB 2229 would allow an individual to pay sales tax on the net difference if they sell a used vehicle and, within 180 days, purchase a new or used vehicle of greater value than the vehicle sold. If the sales tax owed on the replacement vehicle is equal to or less than the sales tax paid on the original vehicle, the owner would not owe sales tax. The bill allows for refunds if the purchased vehicle is of lower value than the amount received from the sale of the previous vehicle. To qualify for the deduction in sales tax, the taxpayer claiming the deduction must submit copies of the bills of sale using the Department of Revenue's TR-312 form or comparable information included on that form. The sale price, date of sale, and buyer and seller information on the bill of sale would match the information entered in the assignment of title on the back of the certificate of title. The bill would become effective on July 1, 2023, and would include vehicles sold on or after January 1, 2024.

The Department of Revenue estimates that HB 2229 would decrease state and local sales tax revenues by unknown amounts beginning in FY 2024. The state funds directly affected by this bill are the State General Fund and the State Highway Fund. The Department is unable to track the number of individuals selling vehicles and subsequently purchasing a different vehicle within six months of the sale to provide a reliable estimate of the fiscal effect the bill. In Calendar Year 2020, the Department of Revenue registered 2,474,008 motor vehicles. A similar program in Missouri has an annual impact for state and local sales tax collections of about \$5.0 million. Adjusting for population differences, the impact in Kansas for state and local sales tax collections

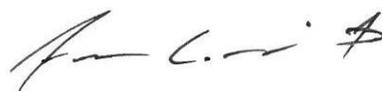
could be \$2.4 million; however, the Missouri program includes trailers, boats, and outboard motors which are not included in this bill.

The Department of Revenue indicates that it would require a total of \$71,321 from the State General Fund in FY 2024 to implement the bill and to modify the motor vehicle system. The bill would require the Department to hire 1.00 new FTE position to answer questions from taxpayers. The Department estimates that ongoing expenses for salaries and wages for the 1.00 FTE position and overhead expenses would total \$61,947 from the State General Fund in FY 2025. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. 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 reduce state revenues to the State Highway Fund, as noted above. Any fiscal effect associated with HB 2229 is not 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