

March 14, 2012

The Honorable Richard Carlson, Chairperson  
House Committee on Taxation  
Statehouse, Room 274-W  
Topeka, Kansas 66612

Dear Representative Carlson:

**SUBJECT:** Fiscal Note for HB 2611 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2611 is respectfully submitted to your committee.

HB 2611 would expand the state's sales tax exemptions to include two sales tax holidays for food and food ingredients. The first sales tax holiday would occur on the second Thursday in November at 12:01 a.m. and end at midnight on the following Sunday. The second sales tax holiday would occur on the third Thursday in December at 12:01 a.m. and end at midnight on the following Sunday. Food and food ingredients would not include alcoholic beverages, tobacco, candy, dietary supplements, food sold through vending machines, or prepared food. The bill also provides specific definitions for candy, food sold through vending machines, prepared food, and soft drinks. The first sales tax holiday for food and food ingredients would occur in November 2012.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$13,320,000)	(\$15,000,000)
Expenditure	--	--	\$12,100	\$12,100
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2611 would decrease state revenues by \$15.0 million in FY 2013. Of that total, the State General Fund is estimated to decrease by \$13,320,000 in FY 2013, while the State Highway Fund is estimated to decrease by \$1,680,000 in FY 2013. This bill also is estimated to decrease local revenues by \$3.9 million in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates  
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,065,000	--	3,065,000
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	(13,320)	2,186,680
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	<u>141,000</u>	<u>--</u>	<u>141,000</u>
Total Taxes	\$6,322,800	(\$ 13,320)	\$6,309,480
Other Revenues:			
Interest	\$ 7,400	\$ --	\$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	<u>51,500</u>	<u>--</u>	<u>51,500</u>
Total Other Revenues	(\$ 31,400)	\$ --	(\$ 31,400)
Total Receipts	\$6,291,400	(\$ 13,320)	\$6,278,080

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$11,490,000)	(\$11,920,000)	(\$12,360,000)	(\$12,830,000)
State Highway Fund	<u>(2,590,000)</u>	<u>(2,690,000)</u>	<u>(2,790,000)</u>	<u>(2,900,000)</u>
	(\$14,080,000)	(\$14,610,000)	(\$15,150,000)	(\$15,730,000)

To formulate these estimates, the Department of Revenue reviewed data on state retail sales tax collections. The Department estimates that the average amount of state sales taxes from the sale of food and food ingredients in the months of November and December would be approximately \$1,250,000 per day. Exempting food and food ingredients during two separate four-day periods prior to the Thanksgiving and Christmas holidays would reduce state sales tax revenues by approximately \$10.0 million (\$1,250,000 X 8 days). However, the Department indicates that consumers would likely change their spending patterns leading up to and after the

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sales tax holiday periods, which would further reduce the amount of state sales tax collections. The Department estimates that during these eight days, sales tax-exempt purchases of food and food ingredients would increase by 50.0 percent and would have the fiscal effect of approximately 12 shopping days, which would reduce state sales tax revenues in FY 2013 by approximately \$15.0 million (\$1,250,000 X 12 days).

The Department of Revenue indicates the bill would require \$12,100 from the State General Fund in FY 2013 for administrative costs to update forms and publications and to develop a food sales tax exemption publication.

The Kansas Department of Transportation (KDOT) indicates the bill would reduce sales tax revenue dedicated to the State Highway Fund by \$1,680,000 in FY 2013 and by \$2,590,000 in FY 2014. It is estimated that sales tax revenue dedicated to the State Highway Fund would be reduced by a total of \$12,650,000 between FY 2013 and FY 2017.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would reduce the amount of local sales tax revenues that are currently collected from food and food ingredients. However, they do not have data on the amount of food and food ingredients sales tax collections to make a precise estimate of the fiscal effect on local governments.

Retailers that sell food and food ingredients would be required to break out the amount of food and non-food sales tax collections to ensure that amounts are reported correctly. Retailers would also be required to reprogram cash registers to accommodate the sales tax holiday for food and food ingredients. Any fiscal effect associated with HB 2611 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA  
Director of the Budget

cc: Steve Neske, Revenue  
Ben Cleeves, Transportation  
Representative Mario Goico  
Melissa Wangemann, Kansas Association of Counties  
Larry Baer, League of Kansas Municipalities