

May 8, 2015

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

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2431 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2431 is respectfully submitted to your committee.

HB 2431 would increase the minimum property tax on motorcycles from \$12 to \$18 beginning in tax year 2016, and the minimum property tax on any other motor vehicle would increase from \$24 to \$36 beginning in tax year 2016. The bill includes a grandfather clause to prevent older vehicles (including those already below the newly proposed minimum tax thresholds) from receiving a tax increase.

The bill would change the depreciation schedule for calculating the amount of future taxes. The depreciation rate would be set at 15.0 percent for vehicles that are first registered in 2016 and for the first three years of a vehicle, 12.0 percent for years four through six, and 10.0 percent for all years thereafter, of the remaining balance for each year of the difference between the model year and the year for which the tax is levied. This amount is multiplied by 20.0 percent during calendar year 2015, 18.0 percent during calendar year 2016, 16.0 percent during calendar year 2017, 14.0 percent during calendar year 2018, and 12.0 percent during calendar year 2019, and all future calendar years. The minimum tax amount would apply once the amount of the tax is equal to or less than the minimum tax amount.

Under current law, the statewide 20 mill property tax levy for education is not applied to motor vehicles, including motorcycles. The bill would require that motor vehicle property tax assessments include 25.0 percent of the amount of the statewide property tax for education on November 1, 2015, 50.0 percent as of November 1, 2016, 75.0 percent as of November 1, 2017, and 100.0 percent as of November 1, 2018.

Passage of HB 2431 would decrease net property tax revenues by reducing the assessed valuation of motor vehicles, which would be partially offset by increased property tax revenue from phasing in the statewide property tax mill levy for education on motor vehicles. The state

funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would decrease revenues to these two funds by \$510,000 in FY 2016, with \$340,000 from the EBF and \$170,000 from the SIBF. The bill would increase the amount of property tax revenues that school districts would receive through the state’s uniform mill levy; however, the increase in property tax revenue from the phase in of the statewide education levy on vehicles would not begin until FY 2017. The bill would also decrease revenues to any local government that levies a property tax. Property tax revenues collected by local governments are estimated to decrease by approximately \$39,050,000 in FY 2016.

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

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
EBF	(\$693,000)	(\$1,047,000)	(\$1,420,000)	(\$1,440,000)
SIBF	(347,000)	(523,000)	(710,000)	(720,000)
Statewide Education Levy	13,800,000	24,490,000	31,930,000	43,160,000
Local Governments	<u>(80,290,000)</u>	<u>(123,800,000)</u>	<u>(169,690,000)</u>	<u>(174,440,000)</u>
	(\$67,530,000)	(\$100,880,000)	(\$139,890,000)	(\$133,440,000)

To formulate these estimates, the Department of Revenue reviewed data on state and local property tax collections on motor vehicles, including motorcycles. Under current law, property tax revenues from vehicles are expected to increase by 1.39 percent each year, as the overall assessed valuation of motor vehicles increases. However, the bill would reduce the overall assessed valuation of motor vehicle property in the state, which would reduce the amount of property tax revenue collected by a total of \$39,560,000 in FY 2016 (\$340,000 EBF + \$170,000 SIBF + \$39,050,000 from local governments).

The Department of Revenue indicates the bill would require \$91,680 from the Vehicle Operating Fund for administrative costs to implement the bill, including updating instructions for county officials, and to modify its motor vehicle processing system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department’s current budget may be required.

The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill would reduce the amount of local property tax revenues that are currently collected from motor vehicles as noted above. The League and the Association indicate that property tax revenues are used in part to finance local governments.

The bill has the potential to provide an increase in new and used car sales by reducing the costs associated with owning a newer vehicle. The Department indicates that the bill has the potential to increase retail sales tax collections from additional motor vehicle sales by approximately \$10.0 million per year, including \$6,526,000 to the State General Fund,

The Honorable Marvin Kleebl, Chairperson

May 8, 2015

Page 3—HB 2431

\$1,474,000 to the State Highway Fund, and \$2.0 million to local government. To formulate this estimate, the Department reviewed motor vehicle sales data from 1995 to 2000 when the property tax on vehicles was reduced from 30.0 percent to 20.0 percent, which increased total motor vehicle sales above its long-term trend. Any fiscal effect associated with HB 2431 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Melissa Wangemann, Association of Counties
Larry Baer, League of Municipalities
Dale Dennis, Education
Jack Smith, Department of Revenue