

February 22, 2016

The Honorable Les Donovan, Sr., Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 442 by Senators Hensley, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 442 is respectfully submitted to your committee.

SB 442 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 and tobacco. The first sales tax holiday for food and food ingredients would occur in November 2016.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	(\$22,600,000)	(\$27,000,000)
Expenditure	--	--	\$5,400	\$5,400
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 442 would decrease state revenues by \$27.0 million in FY 2017. Of that total, the State General Fund is estimated to decrease by \$22.6 million, while the State Highway Fund is estimated to decrease by \$4.4 million. This bill also is estimated to decrease local sales tax revenues by \$6,750,000 in FY 2017. The decrease in revenues and how the November 6, 2015 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2015)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	\$2,485,000	\$ --	\$2,485,000
Corporate	420,000	--	420,000
Financial Institutions	47,000	--	47,000
Excise Taxes:			
Retail Sales	2,380,000	(22,600)	2,357,400
Compensating Use	395,000	--	395,000
Cigarette	135,000	--	135,000
Severance	58,200	--	58,200
All Other Excise Taxes	116,400	--	116,400
Other Taxes	<u>173,300</u>	<u>--</u>	<u>173,300</u>
Total Taxes	\$6,209,900	(\$ 22,600)	\$6,187,300
Other Revenues:			
Interest	\$ 9,200	\$ --	\$ 9,200
Transfers	17,600	--	17,600
Agency Earnings	<u>49,000</u>	<u>--</u>	<u>49,000</u>
Total Other Revenues	\$ 75,800	\$ --	\$ 75,800
Total Receipts	\$6,285,700	(\$ 22,600)	\$6,263,100

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 \$1,125,000 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 \$9.0 million (\$1,125,000 X 8 days). However, the Department indicates that consumers would likely change their spending patterns leading up to and after the 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 be triple the normal purchases and would have the fiscal effect of approximately 24 shopping days, which would reduce state sales tax revenues in FY 2017 by approximately \$27.0 million (\$1,125,000 X 24 days).

The Department of Revenue indicates the bill would require \$5,400 from the State General Fund in FY 2017 for administrative costs to update forms and publications and to develop a food sales tax exemption publication.

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, known as T-WORKS.

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. Any fiscal effect associated with SB 442 is not reflected in *The FY 2017 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: Jack Smith, Department of Revenue
Melissa Wangemann, Association of Counties
Larry Baer, League of Municipalities
Ben Cleaves, Transportation