Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 444 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 444 is respectfully submitted to your committee.

SB 444 would reduce the state retail sales tax and compensating use tax rate for food and food ingredients. Food and food ingredients are defined as substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value. Food and food ingredients would not include alcoholic beverages, dietary supplements, food sold through vending machines, or tobacco. Food and food ingredients would specifically include bottled water, candy, and soft drinks. The bill provides specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The bill would adjust the state retail sales tax rates specifically on food and food ingredients and change the distribution of overall state sales tax revenue collected as follows:

<table>
<thead>
<tr>
<th>Date of</th>
<th>Rate Change</th>
<th>Tax Rate</th>
<th>Percent to State General Fund</th>
<th>Percent to State Highway Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current law</td>
<td>6.5 %</td>
<td>83.846 %</td>
<td>16.154 %</td>
<td></td>
</tr>
<tr>
<td>July 1, 2019</td>
<td>4.0</td>
<td>82.510</td>
<td>17.490</td>
<td></td>
</tr>
<tr>
<td>July 1, 2020</td>
<td>2.0</td>
<td>81.705</td>
<td>18.295</td>
<td></td>
</tr>
</tbody>
</table>

The Department of Revenue estimates that SB 444 would decrease state revenues by $166.5 million in FY 2020 and by $283.2 million in FY 2021. Of those totals, the State General Fund is estimated to decrease by $176.0 million in FY 2020 and by $294.4 million in FY 2021, while the State Highway Fund is estimated to increase by $9.5 million in 2020 and by $11.2 million in FY 2021. This bill would have no effect on local sales tax revenues. The estimate assumes that
15.0 percent of all current sales tax collections are collected on food and food ingredients. State General Fund revenues in the out years assume a 1.9 percent annual growth rate based on the November 2017 Consensus Revenue Estimate.

The Department of Revenue indicates that it is unable to determine the administration costs to implement the reduced sales tax rate on food and food ingredients. The Department indicates that it would be required to update forms, publications, and to modify the sales tax collection system at an unknown cost. The current composite jurisdiction sales tax system does not accommodate a second state sales tax rate. The Department is exploring alternatives to correct this situation.

The Kansas Department of Transportation (KDOT) indicates that the bill would increase state revenues to the State Highway Fund as noted above. KDOT indicates the bill would provide additional funding for the comprehensive transportation plan, known as T-WORKS. Any fiscal effect associated with SB 444 is not reflected in The FY 2019 Governor’s Budget Report.

Sincerely,

Larry L. Campbell
Chief Budget Officer

cc: Chardae Caine, League of Municipalities
Melissa Wangemann, Association of Counties
Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation