



March 10, 2022

The Honorable Adam Smith, Chairperson
 House Committee on Taxation
 Statehouse, Room 346-S
 Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2726 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2726 is respectfully submitted to your committee.

Under current law, when a rental car company buys a vehicle to be used as a rental or leased vehicle, then no sales tax is collected on that purchase. HB 2726 would eliminate this sales tax exemption beginning on July 1, 2022.

Estimated State Fiscal Effect				
	FY 2022 SGF	FY 2022 All Funds	FY 2023 SGF	FY 2023 All Funds
Revenue	--	--	\$9,500,000	\$11,300,000
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

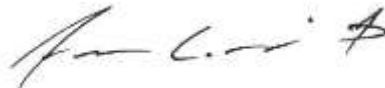
The Department of Revenue estimates that HB 2726 would increase state revenues by \$11.3 million in FY 2023. Of that total, the State General Fund is estimated to increase by \$9.5 million in FY 2023, while the State Highway Fund is estimated to increase by \$1.8 million in FY 2023. This bill also is estimated to increase local sales tax revenues; however, the specific estimate of higher local sales tax revenues was not calculated by the Department of Revenue. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State General Fund	\$10,600,000	\$10,800,000	\$11,000,000	\$11,200,000
State Highway Fund	<u>2,000,000</u>	<u>2,100,000</u>	<u>2,100,000</u>	<u>2,200,000</u>
	\$12,600,000	\$12,900,000	\$13,100,000	\$13,400,000

To formulate these estimates, the Department of Revenue reviewed the number of new rental cars that are registered by rental car companies. In 2021, 7,638 new rental vehicles were registered to rental car companies. Assuming an average cost of \$25,000 per vehicle, the state sales tax on these vehicles is estimated to generate approximately \$12.4 million. Including a one-month lag, the FY 2023 state sales tax on new rental vehicles is estimated generate \$11.3 million. The Department indicates that the bill would require \$1,200 from the State General Fund in FY 2023 to revise sales tax forms and publications.

The Kansas Department of Transportation (KDOT) indicates that the bill would increase state revenues to the State Highway Fund as noted above. The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net increase to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2726 is not reflected in *The FY 2023 Governor's Budget Report*.

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 Municipalities
Jay Hall, Association of Counties