

March 17, 2020

The Honorable John Barker, Chairperson
House Committee on Federal and State Affairs
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Barker:

SUBJECT: Fiscal Note for HB 2635 by Representative Stogsdill

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2635 is respectfully submitted to your committee.

HB 2635 would impose a 5.0 percent privilege tax on the gross receipts from the sale of firearms and ammunition, which would be collected and paid by the seller. The bill would require the seller to file a return with the Director of Taxation at the Department of Revenue on or before the 20th day of each month showing the gross receipts from the sale of firearms and ammunition during the preceding month along with a remittance for the full tax liability. The privilege tax would not apply to sales from one federally licensed firearms dealer to another; wholesalers; or sales to any military unit of the armed forces, army or air national guard unit, law enforcement agency, or any member of such unit or agency, provided the firearms or ammunition are used solely for official duties. The privilege tax would be in addition to any applicable state and local retail sales and compensating use taxes.

The bill would allow the Director of Taxation to audit firearm and ammunitions sellers to ensure compliance with the tax. Remittances from the privilege tax would initially be deposited into the State General Fund. On the 15th day of each month, all moneys received from the payment of the tax and any associated fines, less administrative costs, would then be deposited into the newly created Residential Mental Health Treatment Fund of the Department for Aging and Disability Services. Monies collected could only be used for costs related to the administration and enforcement of the provisions of the bill and costs related to providing residential mental health treatment.

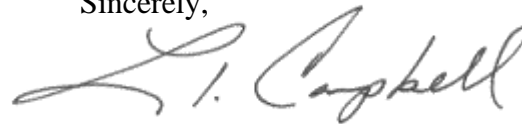
The Department of Revenue estimates that HB 2635 would increase state revenues by approximately \$4.6 million in FY 2021 to the Residential Mental Health Treatment Fund, minus

any costs for administration and enforcement. The fiscal effect to state revenues during subsequent years would be \$5,080,000 in FY 2022 and \$5,150,000 in FY 2023. To formulate these estimates, the Department of Revenue reviewed data on the average number of background checks in the National Instant Criminal Background Check System from 2015 to 2018, the average retail price of guns and ammunition from major sporting goods companies, and the total ammunition sales nationwide. The Department assumed that each firearm background check equated to a gun sale and that no checks were for official duty firearms or ammunition. Using this data, the Department assumes that approximately 142,479 firearms are sold each year at a cost of between \$250 and \$700 and 563,622 units of ammunition are sold at a cost of between \$50 and \$65. The Department then applied a 5.0 percent tax rate to the approximately \$100.0 million in annual firearm and ammunition sales in Kansas.

The Department indicates that the bill would require \$574,325 from the State General Fund in FY 2021 to implement the bill and to modify the automated tax system. The bill would require the Department to hire at least 2.00 Customer Service Representative FTE positions to review and process state returns that include this new tax. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department for Aging and Disability Services indicates that enactment of the bill would provide additional revenue for residential mental health treatment, but that a fiscal effect cannot be determined because the portion of the privilege tax that would be deposited into the Residential Mental Health Treatment Fund cannot be estimated. Any fiscal effect associated with HB 2635 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink that reads "L. L. Campbell". The signature is written in a cursive style with a large, sweeping initial "L".

Larry L. Campbell
Division of the Budget

cc: Lynn Robinson, Department of Revenue
Connie Hubbell, Aging & Disability Services