



February 16, 2023

The Honorable Adam Smith, Chairperson  
 House Committee on Taxation  
 300 SW 10th Avenue, Room 346-S  
 Topeka, Kansas 66612

Dear Representative Smith:

**SUBJECT:** Fiscal Note for HB 2221 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2221 is respectfully submitted to your committee.

HB 2221 would set the state sales tax rate on gas, water, electricity, heat, propane gas, LP-gas, coal, wood, and other fuel sources for the production of heat and lighting for any use at 0.0 percent beginning on July 1, 2024. The bill would allow local governments to continue to charge a retail sales tax on these utilities and fuel sources; however, the bill gives the option for local governments to exempt these items from local sales taxes beginning on July 1, 2025.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	--	--
Expenditure	--	--	\$93,179	\$93,179
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2221 would not have a fiscal effect on state revenues until FY 2025. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State General Fund	(\$42,300,000)	(\$46,400,000)	(\$46,600,000)	(\$47,000,000)
State Highway Fund	<u>(8,700,000)</u>	<u>(9,800,000)</u>	<u>(10,200,000)</u>	<u>(10,300,000)</u>
	(\$51,000,000)	(\$56,200,000)	(\$56,800,000)	(\$57,300,000)

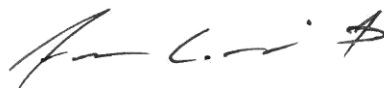
To formulate these estimates, the Department of Revenue reviewed sales tax collections data from FY 2022 on these utilities and fuel sources. The Department indicates that it processes over 2,000 utility exemption requests each year and with only local taxes collected under the provisions of the bill, the Department notes that it may be burdensome to the state and utility providers to process claims that would only apply to local sales taxes.

The Department of Revenue indicates that it would require a total \$93,179 from the State General Fund in FY 2025 to implement the bill and to modify the automated tax system. The Department indicates it would be required to revise existing sales tax forms and publications and would create two new publications as a result of this bill. 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 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 fewer State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan. Any fiscal effect associated with HB 2221 is not reflected in *The FY 2024 Governor's Budget Report*.

The League of Kansas Municipalities and the Kansas Association of Counties indicate the bill would give local governments the option to exempt utilities and fuel sources from local sales taxes. If a local government chose to exempt these sales from its local sales tax base, then the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments.

Sincerely,



Adam Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Craig Neuenswander, Department of Education  
Wendi Stark, League of Kansas Municipalities  
Jay Hall, Kansas Association of Counties