

February 29, 2012

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2607 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2607 is respectfully submitted to your committee.

HB 2607 would exclude cash rebates paid by a vehicle manufacturer to a purchaser or lessee of a new motor vehicle from the definition of “sales or selling price” as used for the calculation of sales tax on vehicles. The bill would take effect on July 1, 2012.

Estimated State Fiscal Effect				
	FY 2010 SGF	FY 2010 All Funds	FY 2011 SGF	FY 2011 All Funds
Revenue	--	--	(\$2,880,000)	(\$3,240,000)
Expenditure	--	--	\$1,575	\$1,575
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2607 would decrease state revenues by \$3,240,000 in FY 2013. Of that amount, the State General Fund is estimated to decrease by approximately \$2,880,000, while the State Highway Fund is estimated to decrease by approximately \$360,000. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,065,000	--	3,065,000
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	(2,880)	2,197,120
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	<u>141,000</u>	<u>--</u>	<u>141,000</u>
Total Taxes	\$6,322,800	(\$ 2,880)	\$6,319,920
Other Revenues:			
Interest	\$ 7,400	\$ --	\$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	<u>51,500</u>	<u>--</u>	<u>51,500</u>
Total Other Revenues	(\$ 31,400)	\$ --	(\$ 31,400)
Total Receipts	\$6,291,400	(\$ 2,880)	\$6,288,520

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$2,490,000)	(\$2,580,000)	(\$2,680,000)	(\$2,780,000)
State Highway Fund	<u>(560,000)</u>	<u>(580,000)</u>	<u>(600,000)</u>	<u>(630,000)</u>
	(\$3,050,000)	(\$3,160,000)	(\$3,280,000)	(\$3,410,000)

To formulate these estimates, the Department of Revenue reviewed data from the National Auto Dealers Association on new and used vehicle sales. The estimate is based on a vehicle cash rebate average of \$1,250 with 50.0 percent of all new car purchases receiving a rebate. It is estimated that there are 90,000 new car purchases in Kansas each year. If 50.0 percent of these sales include a \$1,500 rebate, the loss in state sales tax would be \$3,550,000. However, only 11 months of sales would be affected in FY 2013, or \$3,240,000. It should be noted that the offering of rebates fluctuates from year to year.

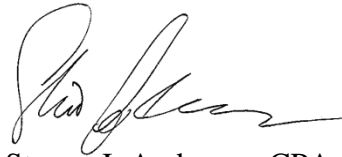
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The Department states that passage of this bill would require revisions to the sales tax publications and a notice of the changes to retailers at an estimated cost of \$1,575. This bill would also require modifications to the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2607 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue