

STATE OF KANSAS

DIVISION OF THE BUDGET
LONDON STATE OFFICE BUILDING
900 SW JACKSON STREET, ROOM 504
TOPEKA, KS 66612



PHONE: (785) 296-2436
FAX: (785) 296-0231
larry.campbell@ks.gov
<http://budget.kansas.gov>

GOVERNOR JEFF COLYER, M.D.
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

March 30, 2018

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2762 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2762 is respectfully submitted to your committee.

HB 2762 would create the Kansas Mechanical Amusement Device Tax Act. The bill defines a mechanical amusement device as any machine that, upon insertion of a coin, currency, credit card, or substitute into the machine, which can be used for a game, contest, or amusement. Examples of a mechanical amusement device would include pinball, shuffleboard, bowling games, radio-ray rifle games, baseball, football, racing, boxing games, coin-operated musical devices, and coin-operated pool tables. The definition of a mechanical amusement device does not include vending machines, private use machines, lottery machines, or electronic gaming machines. Beginning on January 1, 2019, all operators and distributors of mechanical amusement devices would be required to obtain an annual license from the Department of Revenue to operate or distribute these devices. No fees would be charged to obtain an annual operator or distributor license.

Beginning January 1, 2019, the bill would exempt mechanical amusement devices from sales tax and charge an annual tax of \$35 that would be imposed on each mechanical amusement device. Mechanical amusement devices placed into operation after July 1 would be subject to a tax of \$20 for the remainder of the year. Each mechanical amusement device would be required to have an affixed decal that shows that the tax has been paid. The bill includes an administrative penalty of \$75 for each violation of not having the required license and fine of \$200 for not paying the tax which would be a misdemeanor offense. The Director of Taxation at the Department of Revenue would seal the mechanical amusement device if the tax has not been paid, and if the seal is broken before the tax is paid then the device would be subject to forfeiture and sale by the Director. The Department of Revenue would have the authority to write rules and regulations to implement the bill.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	\$595,000	\$575,000
Expenditure	--	--	\$418,456	\$418,456
FTE Pos.	--	--	--	7.00

The Department of Revenue estimates that HB 2762 would increase state revenues by \$575,000 in FY 2019 and by \$450,000 in FY 2020. Of those totals, the State General Fund is estimated to increase by \$595,000 in FY 2019 and by \$490,000 in FY 2020, while the State Highway Fund is estimated to decrease by \$20,000 in FY 2019 and by \$40,000 in FY 2020. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate of lower 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 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
State General Fund	\$490,000	\$490,000	\$490,000
State Highway Fund	<u>(40,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>
	\$450,000	\$450,000	\$450,000

To formulate these estimates, the Department of Revenue reviewed data from the U.S. Census Bureau that shows state sales tax collections from mechanical amusement devices is approximately \$250,000 each year. The Department of Revenue indicates that South Dakota licenses approximately 5,900 mechanical amusement devices. Adjusting this number for population, it is estimated that Kansas has about 20,000 mechanical amusement devices in service, which would result in annual mechanical amusement device tax revenue to the State General Fund of approximately \$700,000. The bill is estimated to increase annually total state revenue by a total of \$450,000 (\$700,000 from the new mechanical amusement device tax minus \$250,000 from exempting the sales tax for these devices). Because the provisions of the bill would begin on January 1, 2019, the bill would increase total state revenue by \$575,000 in FY 2019 (\$700,000 from the new mechanical amusement device tax minus \$125,000 from exempting the sales tax for these devices for the remaining half of the fiscal year). The fiscal note assumes that the annual mechanical amusement device tax will be paid in the first part of the calendar year.

The Department indicates that the bill would require \$418,456 from the State General Fund in FY 2019 to implement the bill and to create a new tax return that requires modifications to the automated tax system. The bill would require the Department to hire 7.00 new FTE positions to manage licensing, tax collection, and to perform additional processing, tracking, and reporting requirements to properly implement and administer this new tax program. On-going expenses for the salary and wages and operational expenses of the 7.00 new FTE positions would require \$327,294 from the State General Fund in FY 2020. 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, additional

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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 lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2762 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Chief Budget Officer

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