

March 27, 2019

REVISED

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

Dear Representative Johnson:

SUBJECT: Revised Fiscal Note for HB 2128 by Representatives Ward and Hodge

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2128 is respectfully submitted to your committee.

HB 2128 would reduce the state retail sales tax and compensating use tax rate for food and food ingredients from 6.5 percent to 4.5 percent on July 1, 2019. Food and food ingredients are defined as substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value. Food and food ingredients would not include alcoholic beverages, candy, dietary supplements, food sold through vending machines, soft drinks, tobacco, or certain prepared food. Food and food ingredients would specifically include bottled water. The bill provides specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The bill would adjust the state retail sales tax rates specifically on food and food ingredients and change the distribution of overall state sales tax revenue collected as follows:

<u>Date of Rate Change</u>	<u>Tax Rate</u>	<u>Percent to State General Fund</u>	<u>Percent to State Highway Fund</u>
Current law	6.5 %	83.846 %	16.154 %
July 1, 2019	4.5	83.132	16.868
July 1, 2020	4.5	83.064	16.936

The bill would adjust the state compensating use tax rates specifically on food and food ingredients as shown above, but does not adjust the distribution of state compensating use tax revenue, which would remain the same as current law: 83.846 percent to the State General Fund and 16.154 percent to the State Highway Fund.

Estimated State Fiscal Effect				
	FY 2019 SGF	FY 2019 All Funds	FY 2020 SGF	FY 2020 All Funds
Revenue	--	--	(\$119,600,000)	(\$119,600,000)
Expenditure	--	--	\$2,092,046	\$2,092,046
FTE Pos.	--	--	--	6.00

The Department of Revenue estimates that HB 2128 would decrease State General Fund revenues by \$119.6 million in FY 2020. This bill would have no effect on either the State Highway Fund or local sales tax revenues. 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	(\$132,100,000)	(\$134,200,000)	(\$136,400,000)

The estimate assumes that 15.0 percent of all current sales tax collections are collected on food and food ingredients. State General Fund revenues in the out years assume a 1.6 percent annual growth rate based on the November 2018 Consensus Revenue Estimate.

The Department of Revenue indicates that it would require a total \$2,092,046 from the State General Fund in FY 2020 to implement the bill and to modify the sales tax system. The bill would require the Department to hire 6.00 new FTE positions to review, process, and audit sales tax returns. The Department estimates that ongoing expenses for salary and wages for the 6.00 FTE positions and overhead expenses would total \$356,909 from the State General Fund in FY 2021. The current composite jurisdiction sales tax system does not accommodate a second state sales tax rate. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue and outside contract programmer services. 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. Since the original fiscal note was issued, the Department of Revenue lowered its estimate on administrative costs needed to implement the bill.

The Kansas Department of Transportation indicates that the bill would have no fiscal effect on the State Highway Fund or the planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS. The League of Kansas Municipalities and Kansas Association of Counties indicate the bill would have no fiscal effect on local governments. Any fiscal effect associated with HB 2128 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Director of the Budget

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