

March 9, 2020

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2730 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2730 is respectfully submitted to your committee.

HB 2730 would provide a sales tax exemption for any 501(c)(3) organization in good standing with the state.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	(\$273,100,000)	(\$325,700,000)
Expenditure	--	--	\$193,272	\$193,272
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2730 would decrease state revenues by \$325.7 million in FY 2021. Of that total, the State General Fund is estimated to decrease by \$273.1 million in FY 2021, while the State Highway Fund is estimated to decrease by \$52.6 million in FY 2021. This bill also is estimated to decrease local sales tax revenue; however, the specific estimate of lower local sales tax revenue was not calculated by the Department of Revenue. The Department of Revenue indicates that this bill would have a similar fiscal effect in future fiscal years.

To formulate these estimates, the Department of Revenue reviewed data on non-profit organizations from the federal Internal Revenue Service and from internal sources. That data shows that there are currently approximately 21,000 non-profit organizations. It is estimated that Kansas 501(c)(3) organizations are estimated to have taxable expenditures of approximately \$5.01 billion, which would generate approximately \$325.7 million in state sales tax.

The Department indicates that the bill would require \$193,272 from the State General Fund in FY 2021 to reissue sales tax publications and to issue sales tax exemption certificates. The bill would require the Department to hire at least 1.00 new FTE position and two temporary positions to answer questions from taxpayers and to issue sales tax exemption certificates to eligible non-profit organizations. The Department indicates that the bill would require \$59,460 from the State General Fund in FY 2022 and in future fiscal years for ongoing salaries and wages and operational costs for the 1.00 FTE position to manage the additional sales tax exemption certificates that the Department would issue as a result of the bill.

The Kansas Department of Transportation indicates that the bill would reduce state revenues to the State Highway Fund, as noted above. The Kansas Department of Transportation 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. 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 2730 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell". The signature is fluid and cursive, with the first name "L." and last name "Campbell" clearly visible.

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Trey Cocking, League of Municipalities
Jay Hall, Association of Counties
Ben Cleaves, Transportation