

MINUTES OF THE HOUSE TAXATION COMMITTEE.

The meeting was called to order by Chairperson John Edmonds at 9:03 a.m. on April 30, 2003 in Room 519-S of the Capitol.

All members were present except:

Rep. Steve Brunk - Excused
Rep. Vaughn Flora - Excused
Rep. Ruby Gilbert - Excused
Rep. Jeff Goering - Excused
Rep. Mario Goico - Excused
Rep. Tom Sawyer - Excused
Rep. Scott Schwab - Excused
Rep. Bonnie Sharp - Excused

Committee staff present:

Chris Courtwright, Legislative Research Dept.
April Holman, Legislative Research Dept.
Carol Doel, Committee Secretary

Conferees appearing before the committee:

Rep. William Kassebaum

Others attending:

No list

Chairman Edmonds opened the meeting with the announcement of a bill introduction and introduced Representative William Kassebaum.

Representative Kassebaum requested introduction of a bill by the tax committee that would raise the state sales tax to 5.8% starting on or after June 1, 2003 and also impose a 3.5% surcharge on income tax starting on or after June 1, 2003.

With no objections, the bill was accepted for introduction.

Chris Courtwright, Legislative Research Department provided the committee with written information regarding *Sales Tax Growth "Slippage" for Large Increases*. (Attachment 1)

With no further business before the committee, the meeting was adjourned at 9:04 a.m.

MEMORANDUM

April 23, 2003

To: Leadership Offices, Governor Kathleen Sebelius, Tax Committee Leadership
From: Chris W. Courtwright
Re: Sales Tax Growth "Slippage" for Large Increases

This memo updates my November 13, 2002 memo (to reflect the revised consensus estimates) with respect to the sales tax growth "slippage" associated with any potential rate increases in excess of 0.5 percent. Since the consensus estimates were reduced for sales (but not use) taxes, the amount expected to be produced by different potential rate increases also has been decreased. (Consider that a 0.10 percent increase effective June 1, 2003, would now produce an additional \$36.529 million in FY 2004, down from the prior estimate of \$36.967 million.)

I think it is certainly worth remembering that increases in the sales tax - especially large increases - can tend to produce less revenue than expected because of certain changes in consumer behavior. For one thing, consumers tend to accelerate major purchases to a time prior to the effective date of the increase. Also, any rate increase increases the relative value of the tax advantage consumers can enjoy by shopping on the Internet or even across state lines.

Looking into the past, I would note that in 1986 when the state sales and use tax was raised from 3.0 to 4.0 percent, the original forecast was that FY 1987 receipts would increase by \$201.2 million. Actual receipts for that year ended up growing by only \$166.1 million, or 17.4 percent less than had been forecast. A number of other factors beyond consumer behavior also likely influenced this shortfall, as the state was in a severe recession at the time.

Data from the rate increase from 4.25 to 4.90 percent in 1992 are somewhat harder to analyze, since there was a number of sales tax base changes occurring at the same time. Nevertheless, the original growth expectations of \$249.3 million in FY 1993 receipts were not met, and revenues in fact increased by \$228.8 million, or 8.2 percent less than had been estimated. You also may recall the economy was enduring another recession during the summer of 1992.

Moreover, it is possible that some slippage as a result of consumer behavior in response to last summer's 0.4 percent rate increase may be responsible in part for explaining the downward revision in both the November 5 and the April 22 estimates.

I therefore have developed a methodology - which has been signed off on by the Department of Revenue and the Budget Division - to adjust for some slippage for rate increases in excess of 0.5 percent. The pure mathematical figure would suggest that a 1.0 percent sales and use tax increase would raise about \$365.3 million in new revenue. But based on the model I have developed, that estimate needs to be lowered to approximately \$334.8 million. This equates to a reduction of about 8.3 percent from the pure mathematical forecast.

House Taxation
Attachment 1
Date 4-30-03

The attached table provides the new estimates for rate changes ranging from 0.5 to 1.0 percent. Remember that no adjustment has been made to the 0.5 percent estimates, though it is certainly possible that those estimates could be too high for some of the reasons discussed.

Finally, please remember that these numbers represent fiscal notes associated with changes in current law. Under current law, the rate is scheduled to decrease from 5.3 to 5.2 percent on July 1, 2004; and to 5.0 percent on July 1, 2005. So the complete column of numbers through FY 2008 for each option would be additions to current law. (For example, the one-tenth percent rate increase column represents the policy decision of raising the rate to 5.4 percent on June 1, 2003; and subsequently reducing the rate to 5.3 percent on July 1, 2004; and to 5.1 percent on July 1, 2005.)

My current estimates for maintaining the tax rate indefinitely at the 5.3 percent level and not allowing any of the future rate decreases to occur are as follows:

(\$ in millions)

fy 04	---
fy 05	\$34.679
fy 06	\$110.898
fy 07	\$121.731
fy 08	\$126.071

These figures, of course, have also been revised downward as a result of the new estimates. (The FY 2005 figure, for example, had been \$35.094 million.)

ies/Use Tax (\$ in millions) Revised for April 22, 2003 Estimates

June 1, 03 increase	each one tenth up to <u>0.5 raises</u>	increase of <u>0.25 percent</u>	increase of <u>0.5 percent</u>	includes rollback adjustment <u>0.6 percent</u>	includes rollback adjustment <u>0.7 percent</u>	includes rollback adjustment <u>0.8 percent</u>	includes rollback adjustment <u>0.9 percent</u>	includes rollback adjustment <u>1.0 percent</u>
FY 2004	\$36.529	\$91.323	\$182.645	\$215.521	\$247.180	\$277.620	\$306.844	\$334.849
FY 2005	\$37.831	\$94.578	\$189.156	\$223.204	\$255.991	\$287.517	\$317.782	\$346.786
FY 2006	\$39.180	\$97.950	\$195.900	\$231.162	\$265.118	\$297.768	\$329.112	\$359.150
FY 2007	\$40.577	\$101.442	\$202.885	\$239.404	\$274.571	\$308.385	\$340.846	\$371.955
FY 2008	\$42.024	\$105.060	\$210.119	\$247.941	\$284.361	\$319.381	\$353.000	\$385.218