

February 20, 2025

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2081 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2081 is respectfully submitted to your committee.

HB 2081 would provide a sales tax exemption to nonprofit community pharmacies that provide services to medically underserved individuals. The exemption would apply to all sales of tangible property and services purchased by a community pharmacy, including purchases made by a contractor for capital projects at the pharmacy. The bill specifies that the sales tax exemption would not apply to community pharmacies that dispense prescription drugs intended to be used for the purpose of causing an abortion. The bill would take effect on July 1, 2025.

| Estimated State Fiscal Effect | | | |
|-------------------------------|---------|------------|-----------|
| | FY 2025 | FY 2026 | FY 2027 |
| Expenditures | | | |
| State General Fund | -- | \$2,010 | -- |
| Fee Fund(s) | -- | -- | -- |
| Federal Fund | -- | -- | -- |
| Total Expenditures | -- | \$2,010 | -- |
| Revenues | | | |
| State General Fund | -- | (\$43,500) | (\$6,565) |
| Fee Fund(s) | -- | (9,500) | (1,515) |
| Federal Fund | -- | -- | -- |
| Total Revenues | -- | (\$53,000) | (\$8,080) |
| FTE Positions | -- | -- | -- |

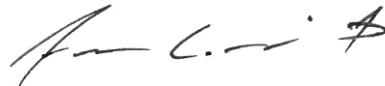
The Department of Revenue indicates that based on IRS exempt organization data, two pharmacies in Kansas would qualify for this sales tax exemption. According to information provided by the pharmacies, the annual reduction to state revenues would be \$8,000 beginning in FY 2026. Of this amount, State General Fund revenues are expected to decrease by \$6,500, while State Highway Fund revenues are expected to decrease by \$1,500. In addition, the pharmacies report that they are anticipating one-time equipment purchases and capital projects in FY 2026, which would further reduce state revenues by \$45,000. Of this amount, State General Fund revenues are expected to decrease by \$37,000 while State Highway Fund revenues are expected to decrease by \$8,000. Assuming 1.0 percent annual growth of exempt sales and purchases, the fiscal effect to state revenues in subsequent years would be as follows:

| | <u>FY 2027</u> | <u>FY 2028</u> | <u>FY 2029</u> | <u>FY 2030</u> |
|--------------------|----------------|----------------|----------------|----------------|
| State General Fund | (\$6,565) | (\$6,631) | (\$6,697) | (\$6,764) |
| State Highway Fund | <u>(1,515)</u> | <u>(1,530)</u> | <u>(1,545)</u> | <u>(1,561)</u> |
| | (\$8,080) | (\$8,161) | (\$8,242) | (\$8,325) |

The Department of Revenue indicates that reissuing sales tax publications and revising forms would cost \$2,010 from the State General Fund in FY 2026. The Kansas Department of Transportation indicates that the bill would reduce revenues to the State Highway Fund as noted above. Any fiscal effect associated with HB 2081 is not reflected in *The FY 2026 Governor's Budget Report*.

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. The bill also has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact this bill would have on the viability of those projects.

Sincerely,



Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Brendan Yorkey, Department of Transportation
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities