

February 28, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2287 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2287 is respectfully submitted to your committee.

HB 2287 would expand the state's sales tax exemptions to include a sales tax holiday for school supplies. The sales tax holiday would occur on the first Thursday in August at 12:01 a.m. and end at midnight on the following Sunday. The bill would exempt all sales of:

1. Any article of clothing having a taxable value of \$300 or less;
2. All back-to-school supplies not to exceed \$100 per purchase;
3. All computer software with a taxable value of \$300 or less; and
4. All personal computers or computer peripheral devices not to exceed \$2,000.

The bill provides definitions for clothing, personal computers, and school supplies. The bill also lists specific items that would not qualify for the sales tax holiday for school supplies. The first sales tax holiday for schools supplies would occur in August 2011.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	(\$5,930,000)	(\$6,680,000)
Expenditure	--	--	\$50,000	\$50,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2287 would decrease state revenues by \$6,680,000 in FY 2012. Of that total, the State General Fund is estimated to decrease by \$5,930,000 in FY 2012, while the State Highway Fund is estimated to decrease by \$750,000 in FY 2012. This bill also is estimated to decrease local revenues by \$1,670,000 in FY 2012. The decrease in revenues and how the November 2, 2010 consensus revenue estimate for FY 2012 would be affected are shown in the following table:

Effect on FY 2012 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 2, 2010)	Change in Revenue FY 2012	Proposed Adjusted CRE FY 2012
Motor Carrier	\$ 27,000	\$ --	\$ 27,000
Income Taxes:			
Individual	2,705,000	--	2,705,000
Corporate	275,000	--	275,000
Financial Institutions	21,000	--	21,000
Excise Taxes:			
Retail Sales	2,090,000	(5,930)	2,084,070
Compensating Use	295,000	--	295,000
Cigarette	97,000	--	97,000
Corporate Franchise	8,000	--	8,000
Severance	94,300	--	94,300
All Other Excise Taxes	96,400	--	96,400
Other Taxes	<u>127,000</u>	<u>--</u>	<u>127,000</u>
Total Taxes	\$5,835,700	(\$ 5,930)	\$5,829,770
Other Revenues:			
Interest	\$ 11,800	\$ --	\$ 11,800
Transfers	(93,700)	--	(93,700)
Agency Earnings	<u>56,800</u>	<u>--</u>	<u>56,800</u>
Total Other Revenues	(\$ 25,100)	\$ --	(\$ 25,100)
Total Receipts	\$5,810,600	(\$ 5,930)	\$5,804,670

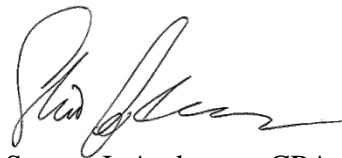
The fiscal effect to revenues during subsequent years would be as follows:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
State General Fund	(\$6,130,000)	(\$5,250,000)	(\$5,440,000)	(\$5,630,000)
State Highway Fund	(780,000)	(1,220,000)	(1,260,000)	(1,310,000)
Local Governments	<u>(1,730,000)</u>	<u>(1,620,000)</u>	<u>(1,670,000)</u>	<u>(1,730,000)</u>
	(\$8,640,000)	(\$8,090,000)	(\$8,370,000)	(\$8,670,000)

To formulate these estimates, the Department of Revenue reviewed data on state sales tax collections and consumer expenditure data. Consumer expenditure data from the U.S. Department of Labor show that the average mid-western household annually spends \$1,743 on clothing and \$1,107 on education. It is estimated that 75.0 percent of the clothing and 25.0 percent of the education purchases would qualify for exempt status during the proposed sales tax holiday. Data on computer-related expenditures come from the state sales tax collections reports, which show collections of \$5.4 million from computer stores. These collections are estimated to represent 10.0 percent of the total sales tax from computer equipment and software. Of that total, it is estimated that 75.0 percent would qualify for exempt status during the sales tax holiday. Data from other states indicate there is an increase in purchases during a sales tax holiday that ranges from “slight” to a five-fold increase in purchases. For the Kansas holiday, it is assumed that sales during the five-day period would be at least triple the normal purchases.

The Department of Revenue indicates it would require \$50,000 from the State General Fund in FY 2012 to implement the sales tax holiday. The costs include the development of a sales tax holiday publication to be made available to retailers and computer processing changes that will allow retailers to report the exemption for tracking by the Department. The cost estimate does not include any expenses for administering the sales tax holiday, which according to other states can create substantial additional workload. Retailers would contact the Department on tax issues and on how to track and report the exempted sales. Consumers would call about the eligibility of specific items, as well as other topics. However, it is assumed that the Department would be able to handle the additional workload within its current budgetary limits. Any fiscal effect associated with HB 2287 is not reflected in *The FY 2012 Governor’s Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Larry Baer, League of Municipalities
Melissa Wangemann, Kansas Association of Counties