

April 5, 2013

The Honorable Richard Carlson, Chairperson
 House Committee on Taxation
 Statehouse, Room 285-N
 Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2407 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2407 is respectfully submitted to your committee.

HB 2407 would expand the sales tax exemption on the constructing, reconstructing, enlarging, or remodeling of a qualifying business facility to include facilities that are leased in whole or in part for a period of five years or more. The sales tax exemption would begin on July 1, 2013.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$2,450,000)	(\$3,000,000)
Expenditure	--	--	\$525	\$525
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2407 would decrease state revenues by \$3.0 million in FY 2014. Of that total, the State General Fund is estimated to decrease by \$2,450,000 in FY 2014, while the State Highway Fund is estimated to decrease by \$550,000 in FY 2014. This bill also would reduce local sales tax revenues; however, the amount was not estimated by the Department of Revenue. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000

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Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	(2,450)	1,949,550
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 2,450)	\$5,553,050
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 2,450)	\$5,461,850

To formulate these estimates, the Department of Revenue reviewed data from FY 2011 when qualifying businesses that leased facilities were able to receive a sales tax exemption on the constructing, reconstructing, enlarging, or remodeling of the business facility. The exemption for leased facilities was removed on January 1, 2012. In FY 2011, the sales tax exemption resulted in the reduction of \$3.1 million in state sales tax collections at a retail sales tax rate of 6.3 percent. Adjusting for growth and the state sales tax rate that is set to decrease to 5.7 percent beginning on July 1, 2013 the sales tax exemption is estimated to reduce state sales tax revenues by a total of \$3.0 million in FY 2014. According to the Department of Revenue, reissuing sales tax publications would cost \$525 from the State General Fund. Any fiscal effect associated with HB 2407 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,



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

cc: Steve Neske, Revenue
Ben Cleaves, KDOT