



Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

February 27, 2014

The Honorable Richard Carlson, Chairperson  
House Committee on Taxation  
Statehouse, Room 185-N  
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2474 by Representative Peck, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2474 is respectfully submitted to your committee.

HB 2474 would provide a sales tax exemption for disabled veterans of the armed forces of the United States. The bill would require the veteran to be certified by the United States Department of Veterans Affairs to be in receipt of disability compensation at the 100.0 percent rate. The qualifying disability must be permanent and sustained through military action, accident, or resulting from disease contracted while in active service. The bill would exempt purchases of food and food products, grooming and hygiene products, and household personal products for Kansas residents who are disabled veterans and have been honorably discharged from active service. The bill would allow disabled veterans to make up to \$20,000 per year in sales tax exempt purchases. The bill would allow the Department of Revenue to recover the sales tax from the disabled veteran for any sales above \$20,000 per year. The sales tax exempt purchases could be made by the disabled veteran, the veteran's spouse, or a member of the household where the veteran resides who is authorized to make purchases on the veteran's behalf.

The bill would require the disabled veteran to be issued an exemption certificate from the Department of Revenue and the disabled veteran would present that certificate to the retailer when claiming the sales tax exemption. The bill defines food and food ingredients to exclude alcoholic beverages and tobacco; grooming and hygiene products; and household personal products. Food purchased at a restaurant would also be exempt. The bill would not allow disabled veterans to receive the sales tax exemption and also claim the food sales tax refund credit.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	(\$1,240,000)	(\$1,500,000)
Expenditure	--	--	\$164,500	\$164,500
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2474 would decrease state revenues by \$1.5 million in FY 2015. Of that total, the State General Fund is estimated to decrease by \$1,240,000 in FY 2015, while the State Highway Fund is estimated to decrease by \$360,000 in FY 2015. This bill also is estimated to decrease local revenues by \$380,000 in FY 2015. The decrease in revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates  
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	\$ 24,000	\$ --	\$ 24,000
Income Taxes:			
Individual	2,525,000	--	2,525,000
Corporate	380,000	--	380,000
Financial Institutions	34,500	--	34,500
Excise Taxes:			
Retail Sales	2,160,000	(1,240)	2,158,760
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	<u>161,700</u>	<u>--</u>	<u>161,700</u>
Total Taxes	\$5,975,200	(\$ 1,240)	\$5,973,960
Other Revenues:			
Interest	\$ 10,000	\$ --	\$ 10,000
Transfers	(118,000)	--	(118,000)
Agency Earnings	<u>49,900</u>	<u>--</u>	<u>49,900</u>
Total Other Revenues	(\$ 58,100)	\$ --	(\$ 58,100)
 Total Receipts	 \$5,917,100	 (\$ 1,240)	 \$5,915,860

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

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	(\$1,290,000)	(\$1,340,000)	(\$1,390,000)	(\$1,440,000)
State Highway Fund	(270,000)	(280,000)	(290,000)	(300,000)
Local Governments	<u>(390,000)</u>	<u>(400,000)</u>	<u>(420,000)</u>	<u>(430,000)</u>
	(\$1,950,000)	(\$2,020,000)	(\$2,100,000)	(\$2,170,000)

To formulate these estimates, the Department of Revenue reviewed consumer expenditure survey data that estimates households spend an average of \$7,200 each year on taxable expenditures for food, grooming, hygiene, and household products. Data from the Department of Veterans Affairs indicates that there are approximately 3,300 veterans who would qualify for the sales tax exemption.

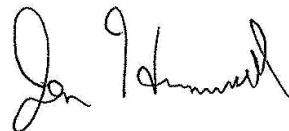
The Department indicates that the bill has the potential to reduce the number and amount of food sales tax credits that are claimed each year because disabled veterans that participate in the sales tax exemption program would no longer be able to claim the food sales tax credit. However, the reduction in tax credits claimed and subsequent increase in income tax receipts to the State General Fund is estimated to be negligible.

The Department of Revenue indicates that it would require \$164,500 from the State General Fund in FY 2015 for the costs associated with updating forms and instructions and to modify the automated tax system. The Department indicates that it would track disabled veterans claiming the sales tax exemption to ensure that they are not also claiming the food sales tax credit on their individual income tax return. The existing sales tax entity exemption certificate process would be used to issue the exemption certificates to the 100.0 percent disabled veterans. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. KDOT indicates that when the state receives lower State Highway Fund dollars it is required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS. Any fiscal effect associated with HB 2474 is not reflected in *The FY 2015 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being more prominent.

Jon Hummell,  
Interim Director of the Budget

cc: Steve Neske, Revenue  
Kafer Peele, KCVA  
Ben Cleaves, KDOT  
Melissa Wangemann, KAC  
Larry Baer, LKM