

February 4, 2015

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

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2076 by Representative Todd, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2076 is respectfully submitted to your committee.

HB 2076 would expand the state's sales tax exemptions to include a sales tax holiday for back-to-school related sales of clothing, clothing accessories, school art supplies, computers, computer software, and other 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 back-to school related sales of:

1. Any article of clothing or clothing accessories having a taxable value of \$300 or less;
2. All school supplies and school art 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 school computer supplies not to exceed \$2,000.

The bill provides definitions for clothing, clothing accessories, school art supplies, personal computers and school computer supplies, and school supplies. The bill includes language on procedures and additional definitions that would allow the sales tax holiday to be compliant with the Streamlined Sales Tax Agreement. The first sales tax holiday for school supplies would occur in August 2017.

The Department of Revenue estimates that HB 2076 would decrease state revenues by \$6,010,000 in FY 2017. Of that total, the State General Fund is estimated to decrease by \$4,980,000 in FY 2017, while the State Highway Fund is estimated to decrease by \$1,030,000 in

FY 2017. This bill also is estimated to decrease local revenues by \$1,500,000 in FY 2017. The fiscal effect to revenues during subsequent years would be as follows:

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$5,170,000)	(\$5,360,000)	(\$5,570,000)
State Highway Fund	(1,060,000)	(1,100,000)	(1,150,000)
Local Governments	<u>(1,560,000)</u>	<u>(1,620,000)</u>	<u>(1,680,000)</u>
	(\$7,790,000)	(\$8,080,000)	(\$8,400,000)

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 Midwestern household annually spends \$1,564 on clothing and \$1,180 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. The Department estimates that sales tax collections from computer-related expenditures at electronic stores totaled \$8,470,000 in FY 2014 based on data from the state sales tax collections report. 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 sales tax holiday, it is assumed that sales during the four-day period would be at least triple the normal purchases, with corresponding decreasing in sales volume before and after the sales tax holiday period.

The Department of Revenue indicates it would require \$50,000 from the State General Fund in FY 2016 to implement the sales tax holiday. The State General Fund appropriation would be required in FY 2016 to fully implement the first sales tax holiday in August 2016 (FY 2017). 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.

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 may be 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 2076 is not reflected in *The FY 2016 Governor’s Budget Report*.

The Honorable Marvin Kleeb, Chairperson

February 4, 2015

Page 3—HB 2076

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 "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, KDOR
Ben Cleeves, KDOT
Melissa Wangemann, KAC
Larry Baer, LKM