

January 30, 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 2086 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2086 is respectfully submitted to your committee.

HB 2086 clarifies the existing sales tax exemption for integrated production machinery and equipment. The bill states that machinery and equipment, such as pressurization and transformer equipment and other equipment used to convey or assist in the conveyance of natural gas, electricity, oil, or water located outside of the generation, water treatment, or petroleum refining plant or facility, are not exempt from sales tax.

The Department of Revenue indicates HB 2086 would have no fiscal effect on state revenues or expenditures. The agency explains that this bill would clarify current agency interpretations that the existing sales tax exemption for integrated production machinery and equipment does not include substation machinery and equipment. The Department indicates that there are several sales tax refund claims that are under appeal that contend that electrical substation machinery and equipment are included in this sales tax exemption. If these cases are resolved against the Department, there would be a potential loss of state revenues of \$1,425,000 in FY 2015 and \$750,000 in FY 2016. Of those totals, the State General Fund is estimated to decrease by \$1,180,000 in FY 2015 and by \$620,000 in FY 2016, while the State Highway Fund is estimated to decrease by \$245,000 in FY 2015 and by \$130,000 in FY 2016. Local sales tax revenues would also have the potential to be reduced by \$475,000 in FY 2015 and \$250,000 in FY 2016. Any fiscal effect associated with HB 2086 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Ben Cleaves, Transportation
Larry Baer, League of Municipalities
Melissa Wangemann, Association of Counties