

February 22, 2016

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

Dear Representative KleeB:

SUBJECT: Fiscal Note for HB 2616 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2616 is respectfully submitted to your committee.

HB 2616 would exclude cash rebates paid by a vehicle manufacturer to a purchaser or lessee of a new motor vehicle from the definition of "sales or selling price" as used for the calculation of sales tax on vehicles. The bill would take effect on July 1, 2016.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	(\$3,460,000)	(\$4,130,000)
Expenditure	--	--	\$600	\$600
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2616 would decrease state revenues by \$4,130,000 in FY 2017. Of that total, the State General Fund is estimated to decrease by \$3,460,000, while the State Highway Fund is estimated to decrease by \$670,000. This bill also is estimated to decrease local sales tax revenues by \$1,033,000 in FY 2017. The decrease in revenues and how the November 6, 2015 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2015)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	\$2,485,000	\$ --	\$2,485,000
Corporate	420,000	--	420,000
Financial Institutions	47,000	--	47,000
Excise Taxes:			
Retail Sales	2,380,000	(3,460)	2,376,540
Compensating Use	395,000	--	395,000
Cigarette	135,000	--	135,000
Severance	58,200	--	58,200
All Other Excise Taxes	116,400	--	116,400
Other Taxes	<u>173,300</u>	<u>--</u>	<u>173,300</u>
Total Taxes	\$6,209,900	(\$ 3,460)	\$6,206,440
Other Revenues:			
Interest	\$ 9,200	\$ --	\$ 9,200
Transfers	17,600	--	17,600
Agency Earnings	<u>49,000</u>	<u>--</u>	<u>49,000</u>
Total Other Revenues	\$ 75,800	\$ --	\$ 75,800
Total Receipts	\$6,285,700	(\$ 3,460)	\$6,282,240

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

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State General Fund	(\$3,920,000)	(\$4,070,000)	(\$4,220,000)	(\$4,380,000)
State Highway Fund	(760,000)	(780,000)	(810,000)	(840,000)
Local Governments	<u>(1,170,000)</u>	<u>(1,210,000)</u>	<u>(1,260,000)</u>	<u>(1,310,000)</u>
	(\$5,850,000)	(\$6,060,000)	(\$6,290,000)	(\$6,530,000)

To formulate these estimates, the Department of Revenue reviewed data from the National Auto Dealers Association on new and used vehicle sales. The estimate is based on a vehicle cash rebate average of \$1,250 with approximately 50.0 percent of all new car purchases receiving a rebate. It is estimated that there are approximately 111,000 new car purchases in Kansas each year. If 50.0 percent of these sales include a \$1,250 rebate, the loss in state sales tax would be \$4,510,000. However, only 11 months of sales would be affected in FY 2017, or \$4,130,000. It should be noted that the offering of rebates fluctuates from year to year. Sales tax collections are expected to increase by approximately 3.75 percent in each future fiscal year. According to the Department of Revenue, reissuing sales tax publications would cost \$600 from the State General Fund in FY 2017.

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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.

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. Any fiscal effect associated with HB 2616 is not reflected in *The FY 2017 Governor's Budget Report*.

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, Department of Revenue
Ben Cleeves, Transportation
Melissa Wangemann, Association of Counties
Larry Baer, League of Municipalities