

March 24, 2015

The Honorable Les Donovan, Sr., Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 263 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 263 is respectfully submitted to your committee.

SB 263 would provide a sales tax exemption for fresh fruits and vegetables. The bill would provide a sales tax exemption for the sale of fresh, unprepared fruits, vegetables, honey, and herbs for human consumption that are not processed or prepared beyond their natural state, except for harvesting or cleaning processes. The sales tax exemption would not include dried fruits or vegetables, such as prunes, raisins, sun-dried tomatoes, or dried chili peppers, potted fruit or vegetable plants, potted or dried herbs, wild rice, nuts, maple syrup, cider, seeds, eggs, meat, cheese, and seafood. The sales tax exemption would not take effect unless the Streamlined Sales Tax Governing Board adopts necessary amendments to make the sales tax exemption compliant with the Streamlined Sales and Use Tax Agreement. Once the necessary amendments are adopted, the sales tax exemption would go into effect the following July 1.

The Department of Revenue indicates SB 263 would not have a fiscal effect on state and local revenues unless the Streamlined Sales Tax Governing Board adopts necessary amendments to make the sales tax exemption compliant with the Streamlined Sales and Use Tax Agreement. If the sales tax exemption would become effective for FY 2016, the Department estimates the bill would decrease state revenues by \$51.0 million in FY 2016. Of that total, the State General Fund is estimated to decrease by \$42.3 million in FY 2016, while the State Highway Fund is estimated to decrease by \$8.7 million in FY 2016. This bill also is estimated to decrease local sales tax revenues by approximately \$12,750,000 in FY 2016. The fiscal effect to state and local revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$44,000,000)	(\$45,700,000)	(\$47,600,000)	(\$49,500,000)
State Highway Fund	(9,100,000)	(9,400,000)	(9,800,000)	(10,200,000)
Local Governments	<u>(13,275,000)</u>	<u>(13,775,000)</u>	<u>(14,350,000)</u>	<u>(14,925,000)</u>
	(\$66,375,000)	(\$68,875,000)	(\$71,750,000)	(\$74,625,000)

To formulate these estimates, the Department of Revenue reviewed data on from the U.S. Department of Labor Consumer Expenditure Survey. The latest report shows that households spend an average of \$3,921 per year on groceries, which includes \$226 on fresh fruits and \$261 on fresh vegetables. Fresh fruits and vegetables represent 12.4 percent of the total expenditures for groceries. It is estimated that groceries generate \$410.6 million in state sales tax receipts and excluding 12.4 percent from fresh fruits and vegetables would reduce state sales tax receipts by \$51.0 million.

According to the Department of Revenue, reissuing sales tax publications would cost \$1,200 from the State General Fund in FY 2016.

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 SB 263 is not reflected in *The FY 2016 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, KDOR
Larry Baer, LKM
Melissa Wangemann, KAC
Ben Cleaves, KDOT