

March 12, 2020

REVISED

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185A-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Revised Fiscal Note for HB 2727 by House Committee on Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2727 is respectfully submitted to your committee.

HB 2727 would require the Legislature to either repeal or suspend an existing sales tax exemption of equal or greater fiscal liability in order to enact any new sales tax exemption that goes into effect on or after July 1, 2021. The bill would require that sales taxes would be applied to the following services identified by their North American Industry Classification System Code beginning on January 1, 2021:

1. 812111 – Barber Shops;
2. 812112 – Beauty Salons;
3. 812113 – Nail Salons; and
4. 812199 – Other Personal Care Services.

The bill would provide a sales tax exemption for the Envision, Inc. beginning on July 1, 2020, for the purpose of improving the quality of life and providing inspiration and opportunity for people who are blind or visually impaired through employment, outreach, rehabilitation, education, and research.

The bill would provide a sales tax exemption for the Friends of Hospice of Jefferson County beginning on July 1, 2020, for the purpose of supporting the Jefferson County Hospice Agency in end-of-life care for Jefferson County families, friends, and neighbors. The bill would

also exempt from sales tax all sales of entry or participation fees, charges, or tickets for the organization’s fundraising event.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	\$4,747,494	\$5,662,159
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2727 would increase state revenues by \$5,662,159 in FY 2021 and by \$13,955,237 in FY 2022. Of those totals, the State General Fund is estimated to increase by \$4,747,494 in FY 2021 and by \$11,700,908 in FY 2022, while the State Highway Fund is estimated to increase by \$914,665 in FY 2021 and by \$2,254,329 in FY 2022. This bill also is estimated to increase local sales tax revenues; however, the specific estimate of higher local sales tax revenues was not calculated by the Department of Revenue.

To formulate the estimates for applying the sales tax to barber shops, beauty shops, nail salons, and other personal care services, the Department of Revenue reviewed data on these industries from the U.S. Census Bureau. Data indicates that approximately \$14.2 million in state sales taxes would be collected from these industries for the full year. Because the sales tax on these industries begins on January 1, 2021, only five months of collections are estimated to be collected in FY 2021, or approximately \$5.9 million.

To formulate the estimates for the sales tax exemptions, the Department of Revenue reviewed data provided by Envision, Inc. and Friends of Hospice of Jefferson County. The Department of Revenue estimates that providing a sales tax exemption to Envision, Inc. would reduce state sales tax collections by approximately \$260,000 in FY 2021. The sales tax exemption for Friends of Hospice of Jefferson County is estimated to reduce state sales tax collections by approximately \$4,300 in FY 2021. The Department of Revenue indicates the bill creates the possibility of future increased state and local sales tax collections if a new sales tax exemption is enacted that would have a lower fiscal effect than the corresponding exemption that is repealed or suspended. According to the Department of Revenue, reissuing sales tax publications and issuing the tax entity exemption certificates would cost \$1,200 from the State General Fund in FY 2021.

The Kansas Department of Transportation (KDOT) indicates that the bill would increase state revenues to the State Highway Fund as noted above. KDOT indicates the bill would provide additional funding for the comprehensive transportation plan. The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net increase to local sales tax collections that are used in part to finance local governments.

Since the original fiscal note was issued, additional fiscal effect responses were received from the Board of Cosmetology. The Board indicates that the bill may have a fiscal effect on its

operations if the new sales tax on certain personal care services is enacted. The Board indicates that the bill has the potential to reduce fee revenue by 10.0 to 20.0 percent if some licensees do not renew their license or if fewer individuals do not apply for a new license. Any fiscal effect associated with HB 2727 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell". The signature is fluid and cursive, with a large initial "L" and a distinct "C" at the end.

Larry L. Campbell
Director of the Budget

cc: Trey Cocking, League of Municipalities
Jay Hall, Association of Counties
Lynn Robinson, Department of Revenue
Ben Cleeves, Transportation
Aubrie Pryer, Cosmetology