



February 11, 2020

The Honorable Caryn Tyson, Chairperson  
 Senate Committee on Assessment and Taxation  
 Statehouse, Room 123-E  
 Topeka, Kansas 66612

Dear Senator Tyson:

**SUBJECT:** Fiscal Note for SB 328 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 328 is respectfully submitted to your committee.

SB 328 would exclude third party price reductions in the selling price of a product (manufacturer coupons) from the calculation of sales tax. The bill would take effect on July 1, 2020.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	(\$1,700,000)	(\$2,000,000)
Expenditure	--	--	\$600	\$600
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 328 would decrease state revenues by \$2.0 million in FY 2021. Of that total, the State General Fund is estimated to decrease by \$1.7 million in FY 2021, while the State Highway Fund is estimated to decrease by \$300,000 in FY 2021. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
State General Fund	(\$1,900,000)	(\$1,900,000)	(\$1,900,000)	(\$2,000,000)
State Highway Fund	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>	<u>(400,000)</u>
	(\$2,300,000)	(\$2,300,000)	(\$2,300,000)	(\$2,400,000)

To formulate the estimates for excluding manufacturer coupons from the calculation of sales tax, the Department of Revenue reviewed national data on the use of coupons. According to industry data, \$3.4 billion coupons are redeemed in the U.S. annually. Assuming that Kansas represents approximately 1.0 percent of the national economy, Kansans redeem approximately \$34.0 million in coupons each year. This would result in a loss of approximately \$2.2 million in state sales tax revenue annually. The Department indicates that there would be a one-month lag time in the first year, impacting only impact 11 months of receipts in FY 2021, or a reduction of state sales tax revenue by a total of \$2.0 million. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue.

The Department of Revenue indicates that the bill has the potential to place Kansas out of compliance with the Streamlined Sales and Use Tax Agreement with new language dealing with manufacturer coupons. The Department of Revenue estimates that more than \$28.9 million in revenues annually could be at risk and may no longer be received if Kansas loses its member status, as other members would no longer be contractually required to remit retail sales and compensating use taxes to Kansas. According to the Department of Revenue, reissuing sales tax publications would cost \$600 from the State General Fund in FY 2021.

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 328 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,



Larry L. Campbell  
Director of the Budget

cc: Trey Cocking, League of Municipalities  
Jay Hall, Association of Counties  
Lynn Robinson, Department of Revenue  
Ben Cleaves, Transportation