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Adam Proffitt, Director

Laura Kelly, Governor

April 5, 2021

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

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2438 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2438 is respectfully submitted to your committee.

HB 2438 would exempt from sales tax the purchase of up to two motor vehicles purchased by a resident of the state who is a disabled veteran or a surviving spouse of a disabled veteran. The bill would allow only two motor vehicles to be exempted from sales taxes over the lifetime of the disabled veteran or surviving spouse. A surviving spouse of a qualified disabled veteran would be able to continue to be eligible for the sales tax exemption program unless the surviving spouse remarries. The sales tax exemption program would become effective on January 1, 2022. A disabled veteran for the purposes of this tax credit would mean:

1. A former member of the Army, Navy, Air Force, Marine Corps, Space Force, Coast Guard or the reserve components of those armed services who left service with an honorable discharge or a date of medical discharge; and

2. Have received a total disability rating for a service-connected disability from the United States Department of Veteran Affairs.

Estimated State Fiscal Effect				
	FY 2021 SGF	FY 2021 All Funds	FY 2022 SGF	FY 2022 All Funds
Revenue	--	--	($2,100,000)	($2,500,000)
Expenditure	--	--	$14,141	$14,141
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2438 would decrease state revenues by $2.5 million in FY 2022 and by $6.0 million in FY 2023. Of those totals, the State General Fund is estimated to decrease by $2.1 million in FY 2022 and by $5.0 million in FY 2023, while the State Highway Fund is estimated to decrease by $400,000 in FY 2022 and by $1.0 million in FY 2023.

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.

To formulate these estimates, the Department of Revenue reviewed data from the National Automobile Dealers Association. That data shows that in calendar year 2020, 40.0 percent of vehicles sold at dealerships were used and 60.0 percent were new, with an average price of $21,206 for used vehicles and $38,043 for new vehicles. Reports issued by the Department's Division of Vehicles shows 2,960 titles were issued in 2020 for vehicles with disabled veteran plate registrations. Based on this information, it is estimated that the sales tax exemption would result in an annual reduction of approximately $6.0 million in state sales tax collections. Because of the one-month lag from when the exemption goes into place and when revenues are recorded, the fiscal effect for FY 2022 only includes five months of this new exemption. According to the Department of Revenue, reissuing sales tax publications, providing notice to dealerships, and IT system changes would cost $14,141 from the State General Fund in FY 2022.

The Kansas Department of Transportation indicates that the bill would reduce state revenues to the State Highway Fund, as noted above. 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.

The Kansas Commission on Veterans Affairs Office indicates that the bill would have no fiscal effect on its operations. Any fiscal effect associated with HB 2438 is not reflected in *The FY 2022 Governor's Budget Report*.

A provision in the federal American Rescue Plan Act of 2021 (ARP) prohibits states or territories from using the federal funds appropriated from ARP "to either directly or indirectly offset a reduction in the net tax revenue of such State or territory resulting from a change in law, regulation, or administrative interpretation during the covered period that reduces any tax (by providing for a reduction in a rate, a rebate, a deduction, a credit, or otherwise) or delays the imposition of any tax or tax increase." If the state fails to comply with this provision by implementing a reduction of net tax revenue through tax year 2024, the U.S. Treasury would be required to recoup ARP funds in the amount of the net tax revenue reduction. If ARP funds are not available, it is presumed that the State General Fund would be used to reimburse the U.S. Treasury.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jay Hall, Association of Counties
Luke Drury, Veterans Affairs
Lynn Robinson, Department of Revenue
Wendi Stark, League of Municipalities