

January 31, 2023

The Honorable Adam Smith, Chairperson  
House Committee on Taxation  
300 SW 10th Avenue, Room 346-S  
Topeka, Kansas 66612

Dear Representative Smith:

**SUBJECT:** Fiscal Note for HB 2106 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2106 is respectfully submitted to your committee.

HB 2106 would provide a sales tax exemption for all sales of equipment, machinery, software, ancillary components, appurtenances, accessories, or other infrastructure purchased by a communications service provider. The bill would also exempt from sales tax all services purchased by a communications service provider that are used in the repair, maintenance, or installation of the communications service. Communications service providers would include internet access service, telecommunications service, video service, or any combination of those three services.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$13,900,000)	(\$16,800,000)
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2106 would decrease state revenues by \$16.8 million in FY 2024. Of that total, the State General Fund is estimated to decrease by \$13.9 million in FY 2024, while the State Highway Fund is estimated to decrease by \$2.9 million in FY 2024. 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 fiscal effect to state revenues during subsequent years would be as follows:

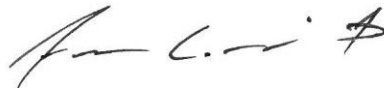
	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>
State General Fund	(\$14,000,000)	(\$14,000,000)	(\$14,200,000)	(\$14,300,000)
State Highway Fund	<u>(3,000,000)</u>	<u>(3,100,000)</u>	<u>(3,100,000)</u>	<u>(3,200,000)</u>
	(\$17,000,000)	(\$17,100,000)	(\$17,300,000)	(\$17,500,000)

To formulate these estimates, the Department of Revenue reviewed data from the telecommunications industry. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,200 from the State General Fund in FY 2024.

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.

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 bill also has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact this bill would have on the viability of those projects. Any fiscal effect associated with HB 2106 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,



Adam Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Brendan Yorkey, Department of Transportation  
Wendi Stark, League of Kansas Municipalities  
Jay Hall, Kansas Association of Counties