



February 5, 2024

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 2585 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2585 is respectfully submitted to your committee.

Under current law, no sales tax is imposed for the service of installing or applying tangible personal property in connection with original construction of a building or a facility that becomes part of real estate. HB 2585 would extend this sales tax exemption to include reconstruction, restoration, remodeling, renovation, repair, or replacement of a building or facility. The sales tax exemption would go into effect on July 1, 2024.

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
<b>Expenditures</b>			
State General Fund	--	\$1,200	--
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	\$1,200	--
<b>Revenues</b>			
State General Fund	--	(\$58,300,000)	(\$64,900,000)
Fee Fund(s)	--	(12,400,000)	(14,300,000)
Federal Fund	--	--	--
Total Revenues	--	(\$70,700,000)	(\$79,200,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2585 would decrease state revenues by \$70.7 million in FY 2025. Of that total, the State General Fund is estimated to decrease by \$58.3 million in FY 2025, while the State Highway Fund is estimated to decrease by \$12.4 million in FY 2025. 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:

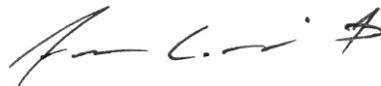
	<u>FY 2026</u>	<u>FY 2027</u>	<u>FY 2028</u>	<u>FY 2029</u>
State General Fund	(\$64,900,000)	(\$66,700,000)	(\$68,400,000)	(\$70,200,000)
State Highway Fund	<u>(14,300,000)</u>	<u>(14,600,000)</u>	<u>(15,000,000)</u>	<u>(15,400,000)</u>
	(\$79,200,000)	(\$81,300,000)	(\$83,400,000)	(\$85,600,000)

To formulate these estimates, the Department of Revenue reviewed actual deductions reported on returns filed by taxpayers self-reporting in the construction industry (NAICS Code 23) for calendar years 2019 through 2022. It is estimated that 27.5 percent of those deductions are attributable to the exception included in the bill. According to the Department of Revenue, reissuing sales tax publications and revising forms would cost \$1,200 from the State General Fund in FY 2025.

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. Any fiscal effect associated with HB 2585 is not reflected in *The FY 2025 Governor's Budget Report*.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments. This bill has the potential to reduce revenues that are pledged to repay STAR bond projects; however, it is unknown what impact the bill would have on the viability of those projects.

Sincerely,



Adam C. Proffitt  
Director of the Budget

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