

February 16, 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 2685 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2685 is respectfully submitted to your committee.

HB 2685 would provide a sales tax exemption to all 501(c)(3) not-for-profit organizations determined to be in good standing with the Secretary of State beginning on July 1, 2024.

The Department of Revenue estimates that HB 2685 would decrease state and local sales tax revenue by providing a new sales tax exemption beginning in FY 2025. The bill would reduce revenues to the State General Fund, State Highway Fund, and local governments by unknown amounts.

The Department of Revenue reports that the Secretary of State has 21,602 business registrations that are active and in good standing in categories that may include 501(c)(3) not-for-profit organizations, but it does not maintain a record of those organizations with this official classification.

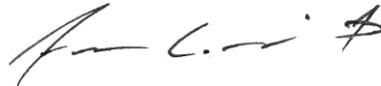
The title of the bill indicates that the exemption is for registered charitable organizations. The Attorney General maintains a charitable organization registry (KSA 17-1759). It is unclear if Legislative intent is to limit the exemption to those organizations registered with the Secretary of State's business registration or the Attorney General's charitable organization registration. As of February 2024, the Attorney General reports 558 registered charitable organizations; however, many charitable organizations are exempt from this registration process, such as fraternal, patriotic, social, educational, and alumni organizations and historical societies when solicitations are confined to their membership; charitable organizations which receive contributions of less than \$10,000 annually; incorporated community chest, united fund, or united way organizations and

organizations receiving allocations from these groups; and organizations that receive contributions from less than 100 persons. Without knowing the number and scope of these organizations that would qualify for this sales tax exemption based on the parameters in the bill, the Department is unable to estimate the fiscal effect. 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 indicates that the bill would reduce state revenues to the State Highway Fund as noted above. The Secretary of State indicates the bill would have no fiscal effect on its operations as its Business Services Division already provides “good standing” classification on its website that is searchable and free of charge. Any fiscal effect associated with HB 2685 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", followed by a stylized flourish or symbol.

Adam C. 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  
Sandy Tompkins, Office of the Secretary of State