



January 26, 2022

The Honorable Caryn Tyson, Chairperson
 Senate Committee on Assessment and Taxation
 Statehouse, Room 548-S
 Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 354 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 354 is respectfully submitted to your committee.

SB 354 would exclude third party price reductions in the selling price of a product (manufacturer coupons) from the calculation of sales tax beginning on July 1, 2022.

Estimated State Fiscal Effect				
	FY 2022 SGF	FY 2022 All Funds	FY 2023 SGF	FY 2023 All Funds
Revenue	--	--	(\$1,700,000)	(\$2,000,000)
Expenditure	--	--	\$1,200	\$1,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 354 would decrease state revenues by \$2.0 million in FY 2023. Of that total, the State General Fund is estimated to decrease by \$1.7 million in FY 2023, while the State Highway Fund is estimated to decrease by \$300,000 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. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
State General Fund	(\$1,900,000)	(\$1,900,000)	(\$2,000,000)	(\$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)	(\$2,400,000)	(\$2,400,000)

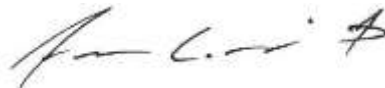
To formulate the estimates for excluding manufacturer coupons from the calculation of sales tax, the Department of Revenue reviewed national data on the use of coupons. According to industry data, \$3.4 billion coupons are redeemed in the U.S. annually. Assuming that Kansas represents approximately 1.0 percent of the national economy, Kansans redeem approximately \$34.0 million in coupons each year. This would result in a loss of approximately \$2.0 million in state sales tax revenue in FY 2023, including \$1.7 million from the State General Fund and \$300,000 from the State Highway Fund.

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 \$60.4 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. The Department indicates that the bill would require \$1,200 from the State General Fund in FY 2023 to update sales tax forms and publications.

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. Any fiscal effect associated with SB 354 is not reflected in *The FY 2023 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 Municipalities
Jay Hall, Association of Counties