

March 1, 2021

The Honorable Caryn Tyson, Chairperson  
Senate Committee on Assessment and Taxation  
Statehouse, Room 123-E  
Topeka, Kansas 66612

Dear Senator Tyson:

**SUBJECT:** Fiscal Note for SB 171 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 171 is respectfully submitted to your committee.

SB 171 would reduce the state retail sales tax and compensating use tax rate for food and food ingredients. Food and food ingredients are defined as substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value. Food and food ingredients would not include alcoholic beverages, candy, dietary supplements, soft drinks, food sold through vending machines, tobacco, or certain prepared foods. Food and food ingredients would specifically include bottled water. The bill provides specific definitions for bottled water, candy, food sold through vending machines, prepared food, soft drinks, and dietary supplements. The bill would adjust the state retail sales tax rates specifically on food and food ingredients and change the distribution of overall state sales tax revenue collected as follows:

<u>Date of Rate Change</u>	<u>Tax Rate</u>	<u>Percent to State General Fund</u>	<u>Percent to State Highway Fund</u>
Current law	6.5 %	83.846 %	16.154 %
July 1, 2021	5.5	83.497	16.503
July 1, 2022	4.5	83.098	16.902
July 1, 2023	3.5	82.680	17.320
July 1, 2024	3.5	82.644	17.356

The bill would adjust the state compensating use tax rates specifically on food and food ingredients as shown above, but does not adjust the distribution of state compensating use tax revenue, which would remain the same as current law: 83.846 percent to the State General Fund and 16.154 percent to the State Highway Fund.

Estimated State Fiscal Effect				
	FY 2021 SGF	FY 2021 All Funds	FY 2022 SGF	FY 2022 All Funds
Revenue	--	--	(\$61,200,000)	(\$61,200,000)
Expenditure	--	--	\$704,839	\$704,839
FTE Pos.	--	--	--	7.00

The Department of Revenue estimates that SB 171 would decrease State General Fund revenues by \$61.2 million in FY 2022. This bill would have no effect on either the State Highway Fund or local sales tax revenues. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2053</u>
State General Fund	(\$129,200,000)	(\$198,600,000)	(\$206,300,000)

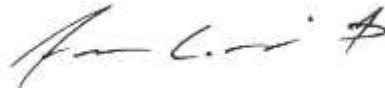
The estimate assumes that 15.0 percent of all current sales tax collections are collected on food and food ingredients. Sales tax estimates are based on the November 2020 Consensus Revenue Estimate.

The Department of Revenue indicates that it would require a total \$704,839 from the State General Fund in FY 2022 to implement the bill and to modify the sales tax system. The bill would require the Department to hire 7.00 new FTE positions to review, process, and audit sales tax returns. The Department estimates that ongoing expenses for salary and wages for the 7.00 FTE positions and overhead expenses would total \$448,124 from the State General Fund in FY 2023. The current composite jurisdiction sales tax system does not accommodate a second state sales tax rate. This bill would require modifications to the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department’s programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department’s current budget may be required.

The Kansas Department of Transportation indicates that the bill would have no fiscal effect on the State Highway Fund or the planned expenditures for projects funded under the comprehensive transportation plan. The League of Kansas Municipalities and Kansas Association

of Counties indicate the bill would have no fiscal effect on local governments. Any fiscal effect associated with SB 171 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Ben Cleeves, Transportation  
Wendi Stark, League of Municipalities  
Jay Hall, Association of Counties