

February 18, 2021

The Honorable Adam Smith, Chairperson  
House Committee on Taxation  
Statehouse, Room 185A-N  
Topeka, Kansas 66612

Dear Representative Smith:

**SUBJECT:** Fiscal Note for HB 2265 by Representatives Woodard and Hoheisel

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2265 is respectfully submitted to your committee.

HB 2265 would provide a sales tax exemption for all sales of textbooks purchased by a student that are required for classes held by public or private postsecondary educational institutions. The bill would require the bookstore sales to be made at the institution itself or at a bookstore operating on the institution's behalf. The bill would allow local governments to continue to charge a sales tax on these textbooks.

Estimated State Fiscal Effect				
	FY 2021 SGF	FY 2021 All Funds	FY 2022 SGF	FY 2022 All Funds
Revenue	--	--	(\$4,700,000)	(\$5,600,000)
Expenditure	--	--	\$85,705	\$85,705
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2265 would decrease state revenues by \$5.6 million in FY 2022. Of that total, the State General Fund is estimated to decrease by \$4.7 million in FY 2022, while the State Highway Fund is estimated to decrease by \$900,000 in FY 2022. The Department indicates that similar results would also occur in future fiscal years. Local sales tax revenues from these textbook sales are not estimated to be affected under the provisions of this bill.

To formulate these estimates, the Department of Revenue reviewed data from The College Board, Board of Regents, and the Kansas Independent College Association. According to The College Board, for the 2020-2021 school year, the annual average cost of books and supplies for a full-time undergraduate is \$1,298. The Board of Regents reports a systemwide 2019 headcount of 242,310 and the Kansas Independent College Association reports a 2020 headcount of 23,263 at their 20-member colleges. Assuming that 25.0 percent of the average cost of books and supplies is spent

on textbooks within a student population of about 265,500 are purchased at the school's bookstore, annual expenditures on textbooks would total approximately \$86.2 million. Exempting sales tax from these purchases would result in a decrease of \$5.6 million in state sales tax collections annually. The Board of Regents indicates that the bill would reduce the total amount of money that students spend on required textbooks to attend classes at postsecondary educational institutions.

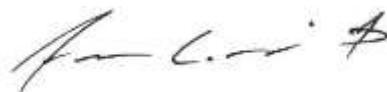
The Department of Revenue indicates that the bill has the potential to place Kansas out of compliance with the Streamlined Sales and Use Tax Agreement. The bill would exempt the sale of textbooks sold by or on behalf of an educational institution, but not rented textbooks or textbooks sold by other retailers. The Department of Revenue estimates that more than \$41.3 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 \$85,705 from the State General Fund in FY 2022 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 1.00 new FTE position to review, process, and audit sales tax returns. 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 (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 HB 2265 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,



Adam Proffitt  
Director of the Budget

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