

February 2, 2007

The Honorable Kenny Wilk, Chairperson
House Committee on Taxation
Statehouse, Room 426-S
Topeka, Kansas 66612

Dear Representative Wilk:

SUBJECT: Fiscal Note for HB 2155 by Representatives Olson and George

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2155 is respectfully submitted to your committee.

HB 2155 would create a sales tax refund on the sale of vehicles that are purchased to replace another that was stolen or destroyed. The refund amount would be based on the insurance proceeds plus the deductible that the buyer receives for the stolen or destroyed vehicle. To qualify, the replacement vehicle would have to be purchased within 180 days of the insurance settlement; the insurance payment would have to be for the full value of the vehicle; and the ownership would have to be transferred to the insurance company as a result of the settlement. The taxpayer would apply for the refund at the county treasurer's office when registering the replacement vehicle.

If the vehicle being replaced was not covered by collision and comprehensive insurance, the vehicle owner would be entitled to reduce the selling price of the replacement vehicle by the "fair market value" of the vehicle that was stolen or destroyed. In order to qualify for the sales tax exemption for the fair market value, the vehicle owner would be required to obtain from the Insurance Commissioner a certificate stating the fair market value of the vehicle. Currently, sale tax reimbursement is required when a cash settlement of total loss on a vehicle is made.

Estimated State Fiscal Effect				
	FY 2007 SGF	FY 2007 All Funds	FY 2008 SGF	FY 2008 All Funds
Revenue	--	--	(\$9,000,000)	(\$10,300,000)
Expenditure	--	--	\$545,000 to \$1,545,000	\$545,000 to \$1,545,000
FTE Pos.	--	--	--	10.00

HB 2155 would decrease state revenues by \$10.3 million in FY 2008. Of the total, the State General Fund is estimated to decrease by \$9.0 million, while the State Highway Fund is estimated to decrease by \$1.3 million in FY 2008. This bill also is estimated to decrease local revenues by \$2.6 million in FY 2008. The decrease in revenues and how the November 3, 2006 consensus revenue estimate for FY 2008 would be affected are shown in the following table:

Effect on FY 2008 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 3, 2006)	Change in Revenue FY 2008	Proposed Adjusted CRE FY 2008
Motor Carrier	\$24,000	\$ --	\$24,000
Income Taxes			
Individual	2,750,000	--	2,750,000
Corporate	355,000	--	355,000
Financial Institutions	31,000	--	31,000
Estate	46,000	--	46,000
Excise Taxes:			
Retail Sales	1,745,000	(9,000)	1,736,000
Compensating Use	290,000	--	290,000
Cigarette	115,000	--	115,000
Corporate Franchise	48,000	--	48,000
Severance	113,500	--	113,500
All Other Excise Taxes	81,200	--	81,200
Other Taxes	117,000	--	117,000
Total Taxes	\$5,715,700	(\$9,000)	\$5,706,700
Other Revenues:			
Interest	\$104,000	\$ --	\$104,000
Transfers	(181,308)	--	(181,308)
Agency Earnings	62,000	--	62,000
Total Other Revenues	(\$15,308)	\$ --	(\$15,308)
Total Receipts	\$5,700,392	(\$9,000)	\$5,691,392

The fiscal effect to state revenues during subsequent years would be as follows:

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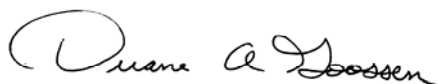
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
State General Fund	(\$9,300,000)	(\$9,700,000)	(\$10,000,000)	(\$10,400,000)
State Highway Fund	(1,300,000)	(1,400,000)	(1,400,000)	(1,500,000)
Local Governments	<u>(2,700,000)</u>	<u>(2,800,000)</u>	<u>(2,900,000)</u>	<u>(3,000,000)</u>
	(\$13,300,000)	(\$13,900,000)	(\$14,300,000)	(\$14,900,000)

The Kansas Insurance Department states that implementing HB 2155 would cost \$1.5 million over three years because it would require the Insurance Department to be involved in the daily claims process of every insurance company that writes vehicle physical damage coverage in Kansas. This additional level of involvement would require additional staff; developing, and mailing certificates; and a “large and complicated computer upgrade.” The agency states that the 10.00 new FTE positions would be certified claims adjusters and administrative staff.

According to the Department of Revenue, the cost to administer this bill is estimated to be \$45,000, which includes \$7,900 for revising and printing new forms, \$22,400 in contractor programming to enable county treasurers to process the refund claims, and \$15,000 in testing and training costs for the county treasurers’ staff.

The Kansas Association of Counties states that the full fiscal effect on counties cannot be estimated. However, it is clear that the bill would require counties to implement new procedures that would increase expenditures. Any fiscal effect associated with HB 2155 is not reflected in *The FY 2008 Governor’s Budget Report*.

Sincerely,



Duane A. Goossen
Director of the Budget

cc: Steve Neske, Revenue
John Campbell, Insurance Department
Judy Moler, KS Association of Counties