

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3131-01
Bill No.: SB 582
Subject: Business and Commerce; Cities, Towns and Villages; Revenue Department;
Taxation and Revenue.
Type: Original
Date: January 20, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government*	Unknown	Unknown	Unknown

* Expected to exceed \$1,000,000 annually.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** and the **Office of Public Council** each state the proposal would have no fiscal impact on their respective agencies.

Officials from the **Public Service Commission (PSC)** assume the proposal would not fiscally impact their agency. The PSC states the legislation could have an impact on telecommunications companies that qualify as small businesses if the tax base collected is less than the tax base that would have been yielded before the change. There could be an impact on small business customers of telecommunications companies if the telecommunications company passes the tax through to its customers.

Officials from the **City of Kansas City (KC)** state this legislation makes a correction to HB 209 of the 2005 Session of the General Assembly. The legislation reflects the agreed compromise between the sponsor of the legislation in the Senate, the telecommunications industry and municipal governments. The impact of the legislation shows increases in revenue over what was passed, but in actuality is revenue neutral when considering the agreement reached in 2004 that was confounded during the last week of the session. The increase in revenues depends upon several assumptions that cannot be verified until the 2004 legislation is implemented. Based upon the best estimates of receipts and market share of wireline and wireless telecommunications

ASSUMPTION (continued)

providers, and recognizing Kansas City has two different rates for telecommunications business license taxes, the following impacts could be expected. Also, because the legislation is an emergency and will reflect the July 1, 2006 start date that was agreed to in the 2004 legislation, estimates will be given for 12 month periods beginning July 1, 2006, as reflected in the bill.

Kansas City further assumes because the legislation corrects the definition of the base year receipts, the city will receive an increase of approximately \$5 million per year for the period July 1, 2006 through June 30, 2008. Because the adjusted rates are reduced over the time period July 1, 2008 through June 30, 2010, the city should see an increase of approximately \$3 million per year. Following the full implementation of the 5% rate cap on July 1, 2010, the increase is estimated to be \$1.1 million per year. These figures do not include any increase or decrease in the basic gross receipts of telecommunications companies that will be subject to the tax.

Officials from other cities did not respond to **Oversight's** request for fiscal impact.

Oversight assumes, based on the response from Kansas City, that the local political subdivisions could see an increase in gross receipts tax revenues from this proposal. Oversight assumes the state-wide amount to be Unknown - exceeding \$1,000,000 annually.

<u>FISCAL IMPACT - State Government</u>	FY 2007	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2007	FY 2008	FY 2009
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MUNICIPALITIES

<u>Income</u> - modification to the existing tax base determination for municipal taxation of telecommunication businesses	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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ESTIMATED NET EFFECT TO MUNICIPALITIES*	<u>UNKNOWN</u>	<u>UNKNOWN</u>	<u>UNKNOWN</u>
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* Expected to exceed \$1,000,000 annually

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

Currently, the existing tax base for municipal taxation of telecommunication businesses is calculated based on the total amount of telecommunications business license taxes collected by a municipality for fiscal year 2005 increased by fifty percent of the difference between such amount and the business license tax receipts that would have been yielded by applying the gross percentage rate to the total gross receipts for all wireless telecommunications services provided by telecommunications companies attributable to the municipality.

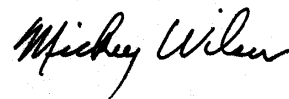
This proposal modifies the calculation so that the existing tax base will be based on the total amount of telecommunications business license taxes collected by a municipality for fiscal year 2005 increased by fifty percent of the business license tax receipts that would have been yielded by applying the gross percentage rate to the total gross receipts for all wireless telecommunications services provided by telecommunications companies attributable to the municipality.

This proposal has an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Economic Development
Public Service Commission
Office of Public Council
City of Kansas City



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