

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION**

MEASURE

2016 BR NUMBER **1963**

HOUSE BILL NUMBER **518**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to sales and use tax.**

SPONSOR **Representative Meyer**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$53,000,000)	(\$53,000,000)	
EXPENDITURES		(indeterminable)	(indeterminable)	
NET EFFECT		(\$53,000,000)	(\$53,000,000)	

() indicates a decrease/negative

MEASURE'S PURPOSE: This proposal, if enacted, would exempt contractors from sales and use tax on their purchases of building materials, fixtures, and supplies if those items:

- Are used to fulfill the terms of a construction contract with state government, local government, or special districts;
- Are permanently incorporated into a structure or to real property or completely consumed in fulfilling the construction contract; and
- Would have been exempt if purchased directly by governmental entity.

Currently all purchases made by construction contractors to fulfill the terms of a construction contract are subject to Kentucky's sales or use tax even though the construction contract is with the state or local government or special districts.

PROVISIONS/MECHANICS: KRS 139.480 is amended to provide an exemption for construction contractors purchasing building materials, fixtures, and supplies to be used in fulfilling a construction contract with state government, local government, or special districts.

FISCAL EXPLANATION: This proposal, if enacted, will have an estimated negative fiscal

impact to the General Fund of approximately (\$53,000,000) in FY 2016-2017 and (\$53,000,000) in FY 2017-2018. There is no fiscal impact in FY 2015-2016 as the exemption is not effective until August 1, 2016.

According to 2013 census data, Kentucky's state and local government construction costs were \$2.976 billion. Using 2012 Economic Census data, approximately 30% of the total construction costs or \$890 million can be attributed to materials, components and supplies. For purposes of this analysis, it is assumed that local governments and special districts account for approximately 43% of the total state and local government construction costs resulting in a \$23 million negative impact to the General Fund from construction contracts with local government entities and \$30 million negative impact from state construction contracts.

Government entities may see a reduction in expenditures to the extent that the construction contractor passes along any or all of contractor's tax savings. However, since many construction contracts are debt financed, a portion of those savings would accrue over perhaps ten to twenty years. Therefore, decreased revenues would be immediate, and the amount of reduced expenditures is indeterminable.

DATA SOURCE(S): U.S. Census 2012 Economic Census, 2013 State and Local Finance, LRC Economist

PREPARER: Charlotte T Quarles NOTE NUMBER: 117 REVIEW: JRS DATE: 3/3/2016