



# Legislative Post Audit Performance Audit Report Highlights

## Kansas Tax Revenues, Part II: Reviewing Sales Tax Exemptions

### Report Highlights

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#### **Audit Concern**

*Legislators have expressed an interest in knowing whether some sales tax exemptions should be considered for elimination.*

#### **Other Relevant Facts**

*Over the years, the percent of State revenues provided by sales taxes has declined from 51% in fiscal year 1980 to 49% in fiscal year 2009.*

*Most sales tax exemptions don't have a measurable purpose. In essence, they subsidize the operations of all entities granted the exemption by lowering their costs of doing business, or by making it "easier" for people to buy their products.*

*Many sales tax exemptions were created or expanded in recent years, including 12 new or expanded exemptions in 1998, 8 in 2001, and 25 in 2006 and 2007.*

*13 of the State's 99 sales tax exemptions account for \$4.1 billion or 96% of the forgone sales tax revenue. In all, 6 of those 13 exemptions ensure that goods are taxed only at the final point of sale, or avoid taxation of governmental entities. Those 6 exemptions cost about \$3.4 billion.*

**AUDIT QUESTION:** *Does Kansas Have Sales Tax Exemptions that Potentially Should Be Considered for Elimination?*

#### **AUDIT ANSWER and KEY FINDINGS:**

- Kansas currently has 99 sales tax exemptions costing the State an estimated \$4.2 billion in fiscal year 2009.
- Sales tax exemptions in several areas aren't in line with good tax policy because they provide unequal treatment for similar types of taxpayers. For example,
  - exemptions for 44 specifically named non-profit organizations or associations, costing about \$2.2 million annually
  - exemptions for non-profits such as hospitals and nursing homes but not their for-profit counterparts
  - an exemption for coin-operated laundries, but not other laundry or coin-operated businesses
- Some of the costliest sales tax exemptions enacted as a matter of public policy relate to machinery and equipment (\$231 million), educational/youth activities (\$58.5 million), labor services (\$182 million), utilities (\$136 million), and health care (\$70 million). Although there may be good public policy reasons for having such exemptions, they significantly erode the State's tax base.
- Recently, many sales tax exemptions have been expanded to exempt "sales by" or "purchases made on behalf of" certain organizations. Such provisions broaden those entities' exemptions, are looser and more at-risk of abuse, and don't distinguish between isolated/occasional sales and ongoing sales.
- The Legislature hasn't adopted broad policy goals regarding the types of organizations, services, or activities it wants to exempt from sales taxes, making it difficult to have a consistent basis for deciding which exemptions have merit and should be continued.

## We Recommended

- We recommended that the Legislature review the sales tax exemptions noted above to determine what changes if any should be made. We also recommended that the Legislature consider establishing a broad sales tax policy outlining the types of sales it wants to exempt and developing criteria regarding what fits within that broad policy.

**Agency Response:** *The Department of Revenue generally concurred with the report's findings and recommendations.*

### DO YOU HAVE AN IDEA FOR IMPROVED GOVERNMENT EFFICIENCY OR COST SAVINGS?

If you have an idea to share with us, send it to [ideas@lpa.ks.gov](mailto:ideas@lpa.ks.gov), or write to us at the address shown. We will pass along the best ones to the Legislative Post Audit Committee.

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