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Laura Kelly, Governor

January 17, 2023

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
300 SW 10th Avenue, Room 548-S
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 7 by Senator Steffen

In accordance with KSA 75-3715a, the following fiscal note concerning SB 7 is respectfully submitted to your committee.

Under current law, individual income tax rates are set at 3.1 percent for income under $15,000 ($30,000 for married filing jointly), 5.25 percent for income between $15,000 and $30,000 (between $30,000 and $60,000 for married filing jointly), and at 5.7 percent for income $30,000 and over ($60,000 and over for married filing jointly). SB 7 would reduce the individual income tax rates for residents living in a rural equity decline county to 1.55 percent for income under $15,000 ($30,000 for married filing jointly), 2.625 percent for income between $15,000 and $30,000 (between $30,000 and $60,000 for married filing jointly), and at 2.85 percent for income $30,000 and over ($60,000 and over for married filing jointly). The bill defines a rural equity decline county as any county in Kansas with a population of 15,000 persons or less according to the most recent decennial census taken and published by the U.S. Census Bureau, where the population of the county decreased between the dates of the two most recent censuses. The rate change would become effective beginning in tax year 2024.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	($41,900,000)	($41,900,000)
Expenditure	--	--	$97,246	$97,246
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 7 would decrease State General Fund revenues by $41.9 million in FY 2024. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2025	FY 2026
State General Fund	($139,400,000)	($140,400,000)

To formulate these estimates, the Department of Revenue reviewed county population data from the U.S. Census Bureau. There are 63 counties and 144,053 taxpayers in counties with a population that declined between the 2020 and 2010 Census that would be considered a rural equity decline county under the provisions of the bill. Tax liability is estimated to be reduced by $139.6 million in TY 2024, and by $140.0 million in both TY 2025 and TY 2026. Taxpayers in these 63 counties currently receive $1.2 million in Rural Opportunity Zone tax credits and the new rates would reduce the credit value by $600,000 beginning in FY 2025. The individual income tax estimate for FY 2024 includes 30.0 percent of tax year 2024 tax liability. The individual income tax estimate for FY 2025 includes 70.0 percent of tax year 2024 tax liability and 30.0 percent of tax year 2025 tax liability.

The Department indicates that the bill would require $97,246 from the State General Fund in FY 2024 to implement the bill and to modify the automated tax system. 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 Department of Administration indicates that adjusting state income tax collections has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to make a precise estimate of the amount of debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with SB 7 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Tamara Emery, Department of Administration