

March 26, 2013

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 232 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 232 is respectfully submitted to your committee.

Under current law, the Kansas Earned Income Tax Credit (EITC) is calculated at 17.0 percent of the federal EITC claimed against the taxpayer's federal income tax liability for tax year 2013 and each tax year thereafter. SB 232 would decrease the amount of the Kansas EITC to 9.0 percent for tax year 2013 and each year thereafter. The bill would also adjust the deduction schedule for calculating the amount of the Homestead Property Tax Refund, and would increase the maximum refund allowed from \$700 to \$1,200. The changes would be effective beginning in tax year 2013.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	\$400,000	\$400,000
Expenditure	--	--	\$1,568,940	\$1,568,940
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 232 would increase State General Fund revenues by \$400,000 in FY 2014. The increase in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000
Income Taxes:			
Individual	2,385,000	400	2,385,400
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	\$ 400	\$5,555,900
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	\$ 400	\$5,464,700

To formulate these estimates, the Department of Revenue reviewed data on the Kansas Earned Income Tax Credit and the Homestead Property Tax Refund Program. The Department estimates that Kansas taxpayers will claim approximately \$90.0 million in tax credits for tax year 2013 under the current rate of 17.0 percent of the amount of the federal tax credit. Decreasing the amount of the Kansas EITC to 9.0 percent for tax year 2013 would decrease the amount of credits claimed by \$42.4 million in FY 2014, which would save the State General Fund that same amount. The Department estimates that increasing the maximum Homestead Property Tax Refund allowed from \$700 to \$1,200 and adjusting the deduction schedule for calculating the amount of the refund would increase the amount of Homestead Property Tax Refunds paid to homeowners by approximately \$42.0 million in tax year 2013, which would cost the State General Fund that same amount. Therefore, the net fiscal effect of the bill is estimated to increase individual income tax receipts to the State General Fund by \$400,000 in tax year 2013 or FY 2013 (adding \$42.4 million from decreasing the Kansas Earned Income Tax Credit to 9.0 percent minus \$42.0 million from changing the deduction schedule and increasing the maximum refund amount for the Homestead Property Tax Refund Program).

The Honorable Les Donovan, Chairperson

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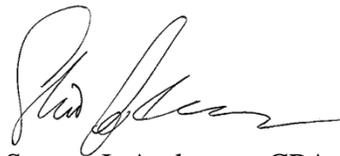
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The Department of Revenue indicates that it would require \$68,940 from the State General Fund in FY 2014 to implement the changes to the Kansas EITC and Homestead Property Tax Refund Program, including the costs associated with updating forms and instructions and to modify the automated tax system. The required programming for this bill by itself (208 hours of in-house programming and 2,160 hours of implementation) would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department for Children and Families indicates that the refundable portion of the Earned Income Tax Credit is used as the primary state match for the federal Temporary Assistance for Needy Families (TANF) Program. Decreasing the amount of the Kansas EITC to 9.0 percent would reduce the amount of this tax credit that would be refunded to taxpayers and may require additional state matching funds devoted to state child welfare and poverty programs through the budget process to count toward the state maintenance of effort requirements and avoid any federal TANF penalties. The Kansas Department for Children and Families estimates that the state would have to spend an additional \$1.5 million from the State General Fund to keep its state maintenance of effort at required levels. This estimate assumes that there will be no other changes to current funding sources that are used for the TANF state maintenance of effort requirements.

In sum, the bill would increase revenues by \$400,000, but would require additional expenditures of \$1,568,940 (\$1.5 million in additional TANF state maintenance of effort plus \$68,940 in administrative costs from the Department of Revenue). Any fiscal effect associated with SB 232 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Jackie Aubert, DCF