

March 26, 2019

REVISED

The Honorable Steven Johnson, Chairperson  
House Committee on Taxation  
Statehouse, Room 185-N  
Topeka, Kansas 66612

Dear Representative Johnson:

**SUBJECT:** Revised Fiscal Note for HB 2005 by Representative Bishop

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2005 is respectfully submitted to your committee.

Under current law, a taxpayer is only allowed to use itemized deductions on a state income tax return if they also use itemized deductions on the federal income tax return. HB 2005 would allow the taxpayer to use itemized deductions on the state income tax return regardless if they use itemized deductions on federal income tax return beginning in tax year 2018. Taxpayers would be allowed to file an amended return by December 31, 2019, in order to make this election for tax year 2018. The bill also removes outdated language on itemized deductions.

Estimated State Fiscal Effect				
	FY 2019 SGF	FY 2019 All Funds	FY 2020 SGF	FY 2020 All Funds
Revenue	--	--	(\$50,100,000)	(\$50,100,000)
Expenditure	--	--	\$598,022	\$598,022
FTE Pos.	--	--	--	--

In the original fiscal note issued, the Department of Revenue calculated the fiscal effect of allowing taxpayers to use itemized deductions on a state income tax return regardless if they use itemized deductions on the federal income tax return by reviewing data from tax year 2016. The Department is now able to analyze updated data from tax year 2017 and issued a revised fiscal note. The Department also lowered its estimate on administrative costs needed to implement the bill. The Department of Revenue estimates that allowing taxpayers to use itemized deductions on a state income tax return regardless if they use itemized deductions on the federal income tax return

would decrease State General Fund revenues by \$50.1 million in FY 2020, \$60.3 million in FY 2021, and \$60.9 million in FY 2022. To formulate these estimates, the Department of Revenue reviewed data on standard and itemized deductions from tax year 2017. Federal tax reform will entice more federal standard deduction users through the raising of the standard deduction and the limit on itemized deductions. Because the bill is retroactive to tax year 2018, the Department assumes individual income taxpayers would amend tax year 2018 returns and apply for refunds in FY 2020.

The Department of Revenue indicates that it would require a total \$598,022 from the State General Fund in FY 2020 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 and outside contract programmer services. 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, 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 an estimate of the amount of additional debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2005 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink that reads "L. L. Campbell". The signature is fluid and cursive, with the first name "L." and last name "Campbell" clearly visible.

Larry L. Campbell  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Colleen Becker, Department of Administration