

January 30, 2023

The Honorable Adam Smith, Chairperson  
House Committee on Taxation  
300 SW 10th Avenue, Room 346-S  
Topeka, Kansas 66612

Dear Representative Smith:

**SUBJECT:** Fiscal Note for HB 2061 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2061 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 5.7 percent for income \$30,000 and over (\$60,000 and over for married filing jointly). HB 2061 would eliminate the individual income tax for taxpayers with income under \$15,000 (\$30,000 for married filing jointly) and set the individual income tax rate to 5.0 percent for income over \$15,000 (\$30,000 for married filing jointly).

Under current law, corporation tax rates are set at 4.0 percent of taxable income (normal tax) and an additional tax of 3.0 percent of taxable income (surtax) applies to taxable income in excess of \$50,000. The bill would set the corporation tax rate at 5.0 percent of taxable income. The bill reduces the privilege surtax rate for national banking associations and state banks from 2.125 percent to 0.88 percent for net income in excess of \$25,000. The bill reduces the privilege surtax rate for trust companies and savings and loan associations for tax from 2.125 percent to 0.96 percent for net income in excess of \$25,000. All rate changes would begin in tax year 2024.

The bill would create a procedure to allow individual and corporation income tax rates to decrease in future tax years. Beginning in FY 2024, the Director of the Budget, in consultation with the Director of Legislative Research, would certify to the Secretary of Revenue at the end of each fiscal year and not later than June 30, the amount of actual tax receipt revenues to the State General Fund in excess of the most recent joint estimate of revenue. The Secretary of Revenue would be required to compute the individual and corporation income tax rate reductions that would

decrease receipts by the certified amount rounded down to the nearest 0.01 percent. The rate change would be required to be published by the Secretary of Revenue by October 1, and would go into effect in the next tax year. Once made, any rate reduction would remain in effect unless further reduced, and annual reductions would continue until the income tax rates are reduced to 0.0 percent. Lower tax receipts would not trigger an automatic rate increase.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$428,000,000)	(\$428,000,000)
Expenditure	--	--	\$75,950	\$75,950
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2061 would decrease State General Fund revenues by \$428.0 million in FY 2024, \$1.452 billion in FY 2025, and \$1.541 billion in FY 2026. The fiscal effect to state revenues during subsequent years by revenue source would be as follows:

<u>Revenue Source</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Individual	(\$372,700,000)	(\$1,260,000,000)	(\$1,340,000,000)
Corporation	(50,300,000)	(175,900,000)	(184,700,000)
Financial Institutions	<u>(5,000,000)</u>	<u>(15,800,000)</u>	<u>(16,500,000)</u>
	(\$428,000,000)	(\$1,451,700,000)	(\$1,541,200,000)

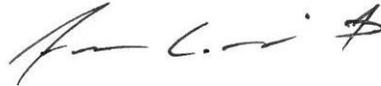
To formulate these estimates, the Department of Revenue simulated this tax policy change based on actual tax return data from tax year 2020. The estimate for FY 2024 includes 30.0 percent of tax year 2024 tax liability. The estimate for FY 2025 includes 70.0 percent of tax year 2024 tax liability and 30.0 percent of tax year 2025 tax liability.

The Department indicates that the bill would require \$75,950 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 HB 2061 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt  
Director of the Budget

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