

January 31, 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 2110 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2110 is respectfully submitted to your committee.

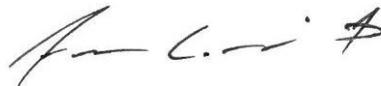
HB 2110 would allow a qualifying taxpayer to elect to use a single sales factor apportionment of business income for calculating income taxes. The qualifying taxpayer would be required to have its principal business activity in the following industries: manufacturing, production of electricity, storage of electricity, other scientific and technical consulting services for biofuel facility, petroleum and petroleum products merchant wholesalers, paper and paper product merchant wholesalers, wireless telecommunication carriers, or involved in certain agricultural activities. The election would be effective for the taxable year of the election and the following nine taxable years. The business electing the single sales factor apportionment would be binding to all members of the unitary group of corporations. The election would be irrevocable unless given permission to terminate the election by the Secretary of Revenue. The Secretary of Revenue would be required to submit a written report concerning the number of taxpayers that have elected the sales factor apportionment rather than the standard apportionment. The report would be due to the House Committee on Taxation and the Senate Committee on Assessment and Taxation on or before March 1, 2028.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$21,900,000)	(\$21,900,000)
Expenditure	--	--	\$34,282	\$34,282
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2110 would decrease State General Fund revenues by \$21.9 million in FY 2024, \$22.5 million in FY 2025, and \$23.2 million in FY 2026. To formulate these estimates, the Department of Revenue reviewed data on the apportionment of business income from the top 600 businesses having at least \$1.0 million in taxable income and found that 200 filers would benefit from making this election to the single sales factor apportionment of business income. The Department estimates that businesses making this election would reduce income taxes by approximately \$21.9 million. Most of these businesses are in the manufacturing industry. The Department indicates that it only captures self-reported North American Industry Classification System (NAICS) codes which may affect the accuracy of the actual NAICS codes for these businesses.

The Department of Revenue indicates that it would require a total \$34,282 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. Any fiscal effect associated with HB 2110 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