

February 21, 2024

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 2684 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2684 is respectfully submitted to your committee.

HB 2684 would allow a city commission the authority to submit to voters the question of imposing an earnings tax of up to 1.0 percent on individuals living or working within the city. The revenue would be used for infrastructure purposes. A petition signed by at least 10.0 percent of voters in the city would be required to ask for an election to repeal the earnings tax or change the earnings tax rate. Voters would be required to vote on extending the earnings tax every five years. The bill includes definitions for “earnings tax” and “salaries, wages, commissions, and other compensation.”

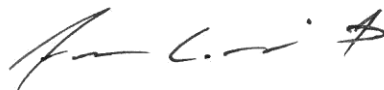
Any person that is exempt from the payment of state income tax would also be exempt from the payment of the city earnings tax. The bill would allow taxpayers to credit the amount of the earnings tax paid to another city against the earnings tax of the city in which the taxpayer’s residence is located. The city would be allowed to provide for deductions and exemptions from salaries, wages, and commissions and may provide exemptions for spouses and dependents. The city would be allowed to create a formula for the calculation of the earnings tax for nonresident individuals that have earnings for work performed within the city and for work performed outside the city.

The city could require employers to collect and remit the earnings tax to the city. The employer would be allowed to deduct and retain 1.5 percent of the total amount of earnings tax collected as a fee to compensate the employer for collecting this tax; however, the city would be allowed to reduce, eliminate, or reimpose this fee by ordinance. The State of Kansas, as an employer in any city, would be allowed to deduct 3.0 percent of the total amount of earnings tax collected if the city earnings tax is less than 1.0 percent, and would be allowed to deduct 1.5 percent of the total amount of earnings tax collected if the city earnings tax is 1.0 percent. The city would be allowed to request that employers submit a list of all employees residing within the city on a yearly basis.

The League of Kansas Municipalities indicates the bill would allow city governments the ability to raise revenue for infrastructure purposes through an earnings tax if approved by the voters in that city. Considerations for the city would include the administrative costs necessary to administer and enforce compliance with the earnings tax, the amount of the administrative fee retained by employers for collecting and remitting the earnings tax from their employees, and the cost of an election authorizing an earnings tax. The League does not know how many cities would request an election to impose an earnings tax or what the amount of the earnings tax would be to make an estimate of the fiscal effect associated with the bill.

The Department of Revenue indicates the bill would have no fiscal effect on state tax revenues, and Kansas Association of Counties indicates that the bill would have no fiscal effect on counties.

Sincerely,

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

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Wendi Stark, League of Kansas Municipalities