

February 15, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2331 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2331 is respectfully submitted to your committee.

HB 2331 would create Rural Opportunity Zones in 40 counties that have lost population of 10.0 percent or more since the 2000 Census. The counties that would be designated as Rural Opportunity Zones would be Barber, Chautauqua, Cheyenne, Clark, Decatur, Edwards, Gove, Graham, Greeley, Greenwood, Harper, Jewell, Kingman, Kiowa, Lane, Lincoln, Logan, Marion, Morton, Ness, Norton, Osborne, Pawnee, Phillips, Rawlins, Republic, Rooks, Rush, Russell, Scott, Sheridan, Sherman, Smith, Stanton, Trego, Thomas, Wallace, Washington, Wichita, and Woodson. Individuals who relocate from outside the state to a Rural Opportunity Zone would be eligible for an income tax credit equal to their tax liability, if they meet the following eligibility requirements:

1. Was domiciled outside of Kansas for five or more years immediately prior to establishing the domicile in a Rural Opportunity Zone;
2. Had no Kansas source income for five or more years immediately prior to establishing their domicile in a Rural Opportunity Zone; and
3. Was domiciled in a Rural Opportunity Zone during the entire tax year for which the credit is claimed.

The taxpayer would be allowed to claim the Rural Opportunity Zone tax credit for no more than five consecutive years following establishment of the taxpayer's domicile in a Rural Opportunity Zone. No tax credits would be allowed if the resident individual's income tax return is not timely filed, the taxpayer is delinquent in filing any return or paying any tax due to the state or any local government, or if the individual does not establish a domicile in a Rural Opportunity Zone prior to January 1, 2016. The tax credit would be available beginning in tax year 2012 and would sunset after tax year 2016.

The bill would also allow any county that has been designated as a Rural Opportunity Zone to be eligible to participate in a student loan forgiveness program. If the county chooses to participate, the county would be required to pass a resolution agreeing to pay in equal shares with the State of Kansas, the outstanding student loan balance of up to \$15,000 of any resident

individual over a five-year period. The amount of the repayment would be equal to 20.0 percent of the outstanding student loan balance over the five-year period. In order to qualify for this program, the resident individual would be required to have earned an associate, bachelor, or post-graduate degree when the resident individual was domiciled outside the state for three or more years and had no Kansas source income for two or more years, or was a resident of Kansas prior to attending an out of state institution of higher education. The student loan forgiveness program would be administered by the Department of Commerce and would begin on January 1, 2012. Benefits under this program are not guaranteed and state funding would be subject to appropriation acts. The county would be allowed to continue funding the program even if the state does not provide funding.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	(\$1,100,000)	(\$1,100,000)
Expenditure	--	--	--	\$1,329,210
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2331 would decrease State General Fund income tax revenues by \$1.1 million in FY 2012. The decrease in revenues and how the November 2, 2010 consensus revenue estimate for FY 2012 would be affected are shown in the following table:

Effect on FY 2012 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 2, 2010)	Change in Revenue FY 2012	Proposed Adjusted CRE FY 2012
Motor Carrier	\$ 27,000	\$ --	\$ 27,000
Income Taxes:			
Individual	2,705,000	(1,100)	2,703,900
Corporate	275,000	--	275,000
Financial Institutions	21,000	--	21,000
Excise Taxes:			
Retail Sales	2,090,000	--	2,090,000
Compensating Use	295,000	--	295,000
Cigarette	97,000	--	97,000
Corporate Franchise	8,000	--	8,000
Severance	94,300	--	94,300
All Other Excise Taxes	96,400	--	96,400
Other Taxes	<u>127,000</u>	<u>--</u>	<u>127,000</u>
Total Taxes	\$5,835,700	(\$ 1,100)	\$5,834,600
Other Revenues:			
Interest	\$ 11,800	\$ --	\$ 11,800
Transfers	(93,700)	--	(93,700)

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Agency Earnings	<u>56,800</u>	<u>--</u>	<u>56,800</u>
Total Other Revenues	(\$ 25,100)	\$ --	(\$ 25,100)
Total Receipts	\$5,810,600	(\$ 1,100)	\$5,809,500

To formulate this estimate, the Department of Revenue reviewed data on the most recent information from the Internal Revenue Service and the U.S. Census Bureau. It is estimated that about 1,550 individual taxpayers from out-of-state moved to counties that would be designated as a Rural Opportunity Zone. Those taxpayers reported federal adjusted gross income of about \$48.3 million. Assuming an average tax rate of 4.5 percent and also assuming only 50.0 percent of these individuals would meet the requirement of residing in Kansas the entire year in order to qualify for the Rural Opportunity tax credit, the estimated fiscal effect in FY 2012 would be about \$1.1 million ($\$48.3 \text{ million} \times 4.5\% \times 50\%$), and would increase to \$3.3 million in FY 2013. The potential cumulative effect on other taxes at the state and local level is not accounted for in this fiscal note.

No information exists to accurately estimate the number of counties that would choose to participate in the student loan forgiveness program or the number of individuals who would move to a Rural Opportunity Zone in order to participate in this program. The Governor's budget recommends a total of \$2,213,887 from the Economic Development Initiatives Fund for the Department of Commerce to manage the new Rural Opportunity Zones Program in FY 2012. Included in this funding is \$884,677 to continue to provide operational support for the Kansas Small Business Development Centers located across the state and \$1,329,210 for administrative expenses of the new Rural Opportunity Zone tax credit program and matching funds for the new student loan forgiveness program. The Governor's recommendations would require the Department of Commerce to use existing staff to manage this new program.

The Department of Revenue indicates that the bill would require administrative costs to implement the new income tax program and modify the automated tax system. However, at the time this fiscal note was prepared, the Department was unable to estimate the administrative costs associated with this bill. If the Department determines that the costs associated with implementing this bill cannot be absorbed within existing resources, a revised fiscal note will be prepared. Any fiscal effect associated with HB 2331 is reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,



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

cc: Steve Neske, Revenue
Traci Herrick, Commerce
Melissa Wangemann, KS Association of Counties