

March 8, 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 2347 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2347 is respectfully submitted to your committee.

Under current law, the Kansas Earned Income Tax Credit (EITC) is calculated as 18.0 percent of the federal EITC claimed against the taxpayer's federal income tax liability for tax year 2010 through tax year 2012 and 17.0 percent for tax year 2013 and each tax year thereafter. HB 2347 would reduce the amount of the Kansas EITC to 12.5 percent for tax year 2011, 8.75 percent for tax year 2012, and 5.0 percent for tax year 2013 and each year thereafter. The bill would change the Kansas EITC from refundable to non-refundable and would calculate the amount of Kansas EITC allowed after the tax liability has been reduced by all other tax credits.

The Department of Revenue estimates that HB 2347 would increase State General Fund revenues by \$56.3 million in FY 2012. The increase 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	56,300	2,761,300
Corporate	275,000	--	275,000
Financial Institutions	21,000	--	21,000
Excise Taxes:			
Retail Sales	2,090,000	--	2,090,000

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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	\$ 56,300	\$5,892,000
Other Revenues:			
Interest	\$ 11,800	\$ --	\$ 11,800
Transfers	(93,700)	--	(93,700)
Agency Earnings	<u>56,800</u>	<u>--</u>	<u>56,800</u>
Total Other Revenues	(\$ 25,100)	\$ --	(\$ 25,100)
Total Receipts	\$5,810,600	\$ 56,300	\$5,866,900

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
State General Fund	\$56,300,000	\$62,000,000	\$63,200,000	\$64,500,000

To formulate these estimates, the Department of Revenue reviewed data on the number of taxpayers and the amount of credits claimed under the Kansas EITC. In tax year 2009, the Kansas EITC was 17.0 percent of the federal EITC claimed and 228,000 taxpayers claimed \$81.4 million in tax credits. In tax year 2011, it is estimated that approximately \$88.1 million in tax credits will be claimed with the Kansas EITC calculated at 18.0 percent of the amount of federal EITC claimed. Reducing the amount of the credit to 12.5 percent for tax year 2011, would reduce the amount of credits claimed and increase State General Fund revenues by an estimated \$23.5 million in FY 2012. Making the credit non-refundable and requiring that the amount of Kansas EITC allowed be calculated after the tax liability has been reduced by all other tax credits is estimated to increase State General Fund revenue by \$32.8 million in FY 2012. Under the provisions HB 2347, it is estimated that the amount of tax credits claimed would decrease by a total of \$56.3 million in FY 2012, from \$88.1 million to \$31.8 million.

The Department of Revenue indicates the bill would require \$41,640 from the State General Fund in FY 2012 for administrative costs to modify the automated tax system. The Department estimates that the bill would require 692 hours of in-house programming and 720 hours of testing which would be performed by existing staff of the Department of Revenue. 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Social and Rehabilitation Services uses the refundable Earned Income Tax Credit as maintenance of effort (MOE) for its federal Temporary Assistance for Needy

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Families (TANF) block grant. Passage of HB 2347 would jeopardize the agency's MOE requirements and cause the loss of some portion of the annual \$101.9 million TANF grant. The agency estimates the state would have to spend an additional \$29.0 million from the State General Fund or other state resources to keep its MOE at required levels. In sum, the bill would increase revenues \$56.3 million but require additional expenditures of \$29.0 million. Any fiscal effect associated with HB 2347 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

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

cc: Steve Neske, Revenue