

February 9, 2011

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 59 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 59 is respectfully submitted to your committee.

SB 59 would set the interest rate on certain overpayments and delinquent and unpaid taxes at a minimum of 10.0 percent beginning on and after January 1, 2012. The minimum rate would apply to certain overpayments and delinquent and unpaid taxes levied or imposed by the State of Kansas or any local taxing subdivision.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	\$8,150,000	\$8,150,000
Expenditure	--	--	\$22,200	\$22,200
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 59 would increase State General Fund revenues by \$8,150,000 in FY 2012 and \$16.3 million in FY 2013. The Department of Revenue indicates that the additional interest earnings from delinquent and unpaid taxes would be collected from multiple tax sources. To formulate these estimates, the Department reviewed data on current account receivable collections. The current interest rate on overpayments and delinquent taxes is 5.0 percent and approximately 20.0 percent of all current accounts receivable collections are payments for interest. Assuming \$180.0 million in delinquent tax collections in FY 2012, the interest charges would account for about \$36.0 million. The Department estimates that an interest rate of 10.0 percent would generate an additional \$18.0 million in annual delinquent tax collections. For the last half of FY 2012, the additional amount would be \$9.0 million (\$18.0 million x 50.0 percent) in additional collections. The most current information available shows about \$3.4 million of interest paid on overpayments. Increasing the interest rate to 10.0 percent would add about \$1.7 million in annual interest paid on overpayments. For the

The Honorable Les Donovan, Chairperson

February 9, 2011

Page 2—Fisc_Note_Sb59

last half of FY 2012, the additional amount paid would be approximately \$850,000 (\$1.7 million x 50.0 percent). The net fiscal effect of the bill would be an increase in State General Fund receipts in FY 2012 of about \$8.15 million (\$9.0 million - \$850,000). In FY 2013, the net fiscal effect would be an increase in receipts of about \$16.3 million (\$18.0 million - \$1.7 million).

The Department of Revenue indicates the bill would require \$22,200 from the State General Fund in administrative costs to modify the automated tax system. The Department estimates that the bill would require 120 hours of in-house programming and 640 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. Any fiscal effect associated with SB 59 is not reflected in *The FY 2012 Governor's Budget Report*.

The League of Kansas Municipalities indicates that the bill would increase the amount of interest earnings that local governments would collect from delinquent and unpaid taxes; however, a precise estimate cannot be quantified. The League of Kansas Municipalities also indicates that the bill would encourage taxpayers to make prompt payment of taxes before the higher interest rate would be charged on unpaid taxes, which has the potential of reducing the total amount of delinquent and unpaid taxes.

Sincerely,



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

cc: Steve Neske, Revenue
Larry Baer, League of KS Municipalities
Melissa Wangemann, KS Association of Counties