

July 24, 2015

The Honorable Marvin Kleeb, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2430 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2430 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. HB 2430 would require non-wage business income to be included as income for Kansas income tax purposes beginning in tax year 2015. The bill would allow qualified income from a business entity with at least one full-time employee to be taxed at the lowest marginal individual income tax rate, currently 2.7 percent for tax year 2015. The bill would also allow all non-wage business losses to be claimed for Kansas income tax purposes.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$133,600,000	\$133,600,000
Expenditure	--	--	\$640,600	\$640,600
FTE Pos.	--	--	--	4.00

The Department of Revenue estimates that HB 2430 would increase State General Fund revenues by \$133.6 million in FY 2016. The increase in revenues and how the April 20, 2015 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 20, 2015)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 11,000	\$ --	\$ 11,000
Income Taxes:			
Individual	2,300,000	133,600	2,433,600
Corporate	440,000	--	440,000
Financial Institutions	44,000	--	44,000
Excise Taxes:			
Retail Sales	2,240,000	--	2,240,000
Compensating Use	370,000	--	370,000
Cigarette	88,000	--	88,000
Severance	73,800	--	73,800
All Other Excise Taxes	113,700	--	113,700
Other Taxes	<u>190,500</u>	<u>--</u>	<u>190,500</u>
Total Taxes	\$5,871,000	\$ 133,600	\$6,004,600
Other Revenues:			
Interest	\$ 17,800	\$ --	\$ 17,500
Transfers	(232,680)	--	(232,680)
Agency Earnings	<u>57,100</u>	<u>--</u>	<u>57,100</u>
Total Other Revenues	(\$ 157,780)	\$ --	(\$ 157,780)
Total Receipts	\$5,713,220	\$ 133,600	\$5,846,820

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

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$96,900,000	\$95,000,000	\$91,500,000	\$96,000,000

To formulate these estimates, the Department of Revenue reviewed data from tax year 2013. Because the bill is retroactive to the start of tax year 2015 and assuming a 5.0 percent growth rate, the bill is expected generate \$133.6 million in FY 2016 from all of tax year 2015 liabilities and a portion of tax year 2016 liabilities.

The Department indicates that the bill would require \$640,600 from the State General Fund in FY 2016 to implement the bill and to modify the automated tax system. The bill would require 4.00 new FTE Customer Service Representative positions in FY 2016 to administer the qualified income qualifications. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of

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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 Administration indicates that adjusting state income tax collections has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are decreased, the amount available for possible debt setoffs is also reduced. However, the Department is unable to make a precise estimate of the amount of debts setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2430 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue