

May 5, 2016

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

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2685 by House Committee on Veterans, Military and Homeland Security

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2685 is respectfully submitted to your committee.

HB 2685 would provide a refundable income tax credit for 100.0 percent of the amount of the property taxes paid on a home owned by a disabled veteran. The bill defines a disabled veteran as a person who served in the armed forces of the United States or Kansas National Guard and who is entitled to compensation for a service-connected disability of 100.0 percent under the laws administered by the Veterans Administration. Taxpayers claiming this new income tax credit would be prohibited from receiving the Homestead Property Tax Refund. The new income tax credit would be available to qualifying taxpayers beginning in tax year 2016.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	(\$5,500,000)	(\$5,500,000)
Expenditure	--	--	\$151,520	\$151,520
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2685 would decrease State General Fund revenues by \$5.5 million in FY 2017. The decrease in revenues and how the April 20, 2016 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 20, 2016)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	\$2,377,000	(\$ 5,500)	\$2,371,500
Corporate	396,000	--	396,000
Financial Institutions	40,000	--	40,000
Excise Taxes:			
Retail Sales	2,350,000	--	2,350,000
Compensating Use	405,000	--	405,000
Cigarette	133,000	--	133,000
Severance	33,900	--	33,900
All Other Excise Taxes	118,400	--	118,400
Other Taxes	<u>185,900</u>	<u>--</u>	<u>185,900</u>
Total Taxes	\$6,039,200	(\$ 5,500)	\$6,033,700
Other Revenues:			
Interest	\$ 13,400	\$ --	\$ 13,400
Transfers	56,600	--	56,600
Agency Earnings	<u>41,800</u>	<u>--</u>	<u>49,000</u>
Total Other Revenues	\$ 111,800	\$ --	\$ 118,800
Total Receipts	\$6,151,000	(\$ 5,500)	\$6,145,500

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

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	(\$5,500,000)	(\$5,500,000)	(\$5,500,000)	(\$5,500,000)

To formulate these estimates, the Department of Revenue reviewed data on disabled veterans from the United States Department of Veterans Affairs. The Department of Revenue estimates that there are approximately 4,100 disabled veterans in the state with a disability rating of 100.0 percent; however, it is estimated that 3,075, or 75.0 percent, would qualify for this tax credit by owning their home. The Department estimates that these individuals pay approximately \$6.2 million in property taxes. The Department estimates that 100.0 percent disabled veterans already claim approximately \$700,000 in income tax credits under the current qualifications for the Homestead Property Tax Refund Program. Therefore, the fiscal effect of providing 100.0 percent disabled veterans with an income tax for 100.0 percent of the amount of property taxes paid would be a reduction of individual income tax revenue of \$5.5 million (\$6.2 million minus \$700,000) in tax year 2016 or FY 2017.

The Honorable Marvin Kleebl, Chairperson

May 5, 2016

Page 3—HB 2685

The Department indicates that the bill would require \$151,520 from the State General Fund in FY 2017 to update forms and instructions and to modify the automated tax system. 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 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 HB 2685 is not reflected in *The FY 2017 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