



February 14, 2024

The Honorable Adam Smith, Chairperson
 House Committee on Taxation
 300 SW 10th Avenue, Room 346-S
 Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2534 by Representative Proctor, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2534 is respectfully submitted to your committee.

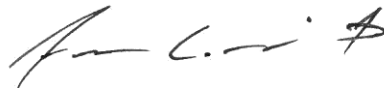
Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the federal adjusted gross income. HB 2534 would allow the amount received as compensation for serving in the Armed Forces that does not exceed the compensation of a senior enlisted member of the United States Department of Defense to be subtracted from income for Kansas income tax purposes beginning in tax year 2025. The bill defines “serving in the Armed Forces” as a person who serves as a uniformed member in the Army, Navy, Air Force, Coast Guard, Marine Corps, or Space Force of the United States whether in active duty, reserve, or in a national guard.

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
Expenditures			
State General Fund	--	\$85,015	--
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	\$85,015	--
Revenues			
State General Fund	--	(\$2,300,000)	(\$7,600,000)
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Revenues	--	(\$2,300,000)	(\$7,600,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2534 would decrease State General Fund revenues by reducing individual income tax collections by \$2.3 million in FY 2025, and by \$7.6 million in both FY 2026 and FY 2027. To formulate these estimates, the Department of Revenue reviewed data from the Defense Manpower Data Center, which catalogs data for the Department of Defense's administrative needs. The Data Center's most recent data indicates a total of 17,310 active duty, national guard, and reserve members in Kansas as of December 2023. Each branch contains one senior enlisted member currently compensated at \$10,294.80 a month, or \$123,537.60 a year, which would be the cap on this subtraction modification. The average salaries for Kansas are below this threshold at \$42,251 a year for active duty and \$20,471 a year for reserves and national guard. These members are paid an estimated total taxable income of \$239.0 million after adjustments to federal and Kansas income. The fiscal note assumes an effective tax rate of 3.1 percent for this income. The individual income tax estimate for FY 2025 includes 30.0 percent of tax year 2025 tax liability. The individual income tax estimate for FY 2026 includes 70.0 percent of tax year 2025 tax liability and 30.0 percent of tax year 2026 tax liability.

The Department indicates that the bill would require \$85,015 from the State General Fund in FY 2025 to implement the bill 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. In addition, 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2534 is not reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,



Adam C. Proffitt
Director of the Budget

cc: Michael Neth, Office of the Adjutant General
Lynn Robinson, Department of Revenue