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Adam C. Proffitt, Director

Laura Kelly, Governor

February 3, 2025

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 2036 by Representative Proctor

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2036 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from federal adjusted gross income. HB 2036 would allow the amounts received as compensation by an individual for serving in the armed forces to be subtracted from income for Kansas income tax purposes beginning in tax year 2026. The amount of compensation that can be subtracted from income would be limited to the amount of compensation of a senior enlisted member of the armed forces as set by the U.S. Department of Defense for that tax year. The subtraction modification would apply to uniformed members in the Army, Air Force, Navy, Coast Guard, Marine Corps, or Space Force, including active duty, reserves, or National Guard members. Compensation is defined as all pay, bonuses, reimbursement, or compensation for service in the armed forces.

Estimated State Fiscal Effect			
	FY 2025	FY 2026	FY 2027
Expenditures			
State General Fund	--	$72,080	--
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	$72,080	--
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 2036 would reduce State General Fund revenues by $2.3 million in FY 2026, $7.6 million in FY 2027, and $7.7 million in FY 2028. The Department of Revenue reviewed data from the Defense Manpower Data Center's Reporting System. For the estimated 17,310 active-duty, national guard, and reserve members in Kansas as of December 2023, total taxable income is estimated to be $239.0 million and using an effective tax rate of 3.1 percent would reduce State General Fund revenues by $7.6 million in tax year 2026. The proposed subtraction modification is effective in tax year 2026 and it is expected that some taxpayers would adjust their withholding to see an impact starting in FY 2026.

The Department of Revenue indicates that it would require a total $72,080 from the State General Fund in FY 2026 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 2036 is not reflected in *The FY 2026 Governor's Budget Report*.

Sincerely,

Adam C. Proffitt
Director of the Budget

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