

January 29, 2025

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
300 SW 10th Avenue, Room 548-S
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 25 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 25 is respectfully submitted to your committee.

SB 25 would enact the Insurance Savings Account Act. Starting January 1, 2026, any individual or corporation would be allowed to open an account with a financial institution and designate the account as an insurance savings account to pay or reimburse insurance premiums and deductibles for property and casualty insurance.

Calculations for Kansas income taxes are based on Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. The bill would allow taxpayers to subtract the amount of contributions to an insurance savings account from income for Kansas income tax purposes beginning in tax year 2026. The bill would limit the subtraction modification to \$6,000 for individual taxpayers, \$12,000 for a married couple filing a joint return, and \$25,000 for a corporation, or the amount received as income earned from assets in an insurance savings account. The bill would require that if the taxpayer does not use the insurance savings account for the authorized uses, then the taxpayer would be required to add back the amounts previously claimed for Kansas income tax purposes. The Department of Revenue would have the authority to write rules and regulations to implement the bill prior to December 1, 2025.

Financial institutions would be protected under the bill and would not be required to track how the funds are used, ensure account holders qualify for tax benefits, or be responsible for determining if withdrawals are used for eligible expenses. The Kansas Commissioner of Insurance would be granted non-exclusive authority to market the program throughout the state.

The Department of Revenue and the Department of Insurance are estimating substantially different fiscal impacts for this bill. Each agency has utilized a different set of underlying assumptions that inform their individual estimates for the fiscal note. Those assumptions and the individual estimates for the fiscal impact are listed in the following paragraphs.

The Department of Revenue estimates that the bill would decrease state revenues by \$73.1 million in FY 2026 and up to \$249.3 million per year thereafter. To formulate these estimates, the Department of Revenue used the 2020 United States Census report, which reports that there are approximately 1.2 million households in Kansas. The Department estimates that large corporations will fully utilize the accounts and would reduce State General Fund revenue by \$5.6 million. Smaller companies would pay \$684 a year in business insurance premiums into the savings account. The Department estimates that if 10.0 percent of households fully utilize the account with an effective tax rate of 3.5 percent, the total reduced State General Fund revenue between individuals and corporations would be \$29.9 million. If all households utilize the savings account, then the total reduced State General Fund revenue would be \$249.3 million. The Department estimates a reduction in FY 2026 because they anticipate that individuals could adjust their withholding and thus the first decrease in State General Fund Revenue would occur in FY 2026.

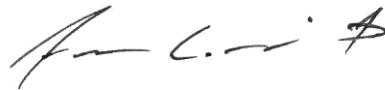
The Department of Revenue indicates that it would require a total of \$202,326 from the State General Fund in FY 2026 to implement the bill and to modify the automatic tax system. The bill would require the Department to hire 1.00 new position to answer questions from taxpayers. The Department estimates that ongoing expenses for salaries and wages for the 1.00 position would total \$65,651 from the State General Fund in FY 2027. 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.

The Kansas Department of Insurance states that enactment of the bill would not have a fiscal effect on agency operations. However, the agency estimates that the bill would reduce state revenues by \$6.0 million in FY 2027 and \$12.1 million in FY 2028. To formulate these estimates, the Department assumes that since the bill would become effective for the 2026 tax year, the reduction in revenues would not occur until FY 2027. For individuals and married filing jointly, the Department utilized the number of tax returns that included the First-Time Homebuyers Savings Account in the first year, 169 returns, and multiplied that amount roughly by 45 because the agency estimates that SB 25 would be utilized more. For the corporate estimate, the Department obtained the number of large corporations, which total 2,787, from the Department of Revenue and used approximately half the amount for the first year and the entire amount for the second year. For FY 2027, the agency estimates that 3,750 individuals, 3,750 married filing jointly, and 1,400 corporations would utilize the new account at the maximum contribution rate. The tax rate is estimated at 5.58 percent for individuals and those married filing jointly and 6.5 percent for corporations. For FY 2028, the agency estimates that 7,500 individuals, 7,500 married

filing jointly, and 2,800 corporations would utilize the maximum contribution rate. The tax rate would be the same as FY 2027.

The Kansas Department of Credit Unions and the Office of the State Bank Commissioner both state that enactment of the bill would not have a fiscal effect on the operations of either agency. Any fiscal effect associated with SB 25 is not reflected in *The FY 2026 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt". The signature is fluid and cursive, with a large initial "A" and a stylized "P" at the end.

Adam C. Proffitt
Director of the Budget

cc: Kyle Strathman, Insurance Department
Lynn Robinson, Department of Revenue
Jesse Becker, Office of the State Bank Commissioner
Julie Murray, Department of Credit Unions