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Adam C. Proffitt, Director

Laura Kelly, Governor

March 3, 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 277 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 277 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. SB 277 would allow qualified tips received during the tax year to be subtracted from income for Kansas income tax purposes beginning in tax year 2026. The qualified tips would be required to be included on the Internal Revenue Service form issued by the employer to the employee. The subtraction modification would be limited to $25,000 for an individual and $25,000 for each spouse that files a married filing jointly return. The Secretary of Revenue would be required to publish a list of occupations that traditionally and customarily receive tips. The bill includes definitions of "cash tips" and "qualified tip."

Estimated State Fiscal Effect			
	FY 2025	FY 2026	FY 2027
Expenditures			
State General Fund	--	$145,261	$65,651
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	$145,261	$65,651
Revenues			
State General Fund	--	($4,000,000)	($13,200,000)
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Revenues	--	($4,000,000)	($13,200,000)
FTE Positions	--	1.00	1.00

The Department of Revenue estimates that HB 277 would reduce State General Fund revenues by $4.0 million in FY 2026, and by $13.2 million in both FY 2027 and FY 2028. To formulate these estimates, the Department of Revenue reviewed data from the Committee for a Responsible Federal Budget. It is estimated that $700.0 to $900.0 billion in tips would be given in the next ten years across the country with Kansas accounting for approximately 0.7 percent of that amount. Based on Bureau of Labor Statistics data on the average waiter and waitress pay in Kansas, tips are estimated to be taxed at an effective rate of 2.1 percent. The bill would become effective in tax year 2026, with the first impact being seen in FY 2026. The estimate for FY 2026 includes 30.0 percent of tax year 2026 tax liability. The estimate for FY 2027 includes 70.0 percent of tax year 2026 tax liability and 30.0 percent of tax year 2027 tax liability.

Several outside factors may affect the fiscal impact of this bill. There may be an undetermined larger impact due to taxpayer behavior changes causing more employees to work in tipped positions or for existing positions to become tipped. Additionally, federal legislation designed to end taxes on tipped income may render this subtraction modifier redundant and cause this bill to have no fiscal impact.

The Department of Revenue indicates that the bill would require $145,261 from the State General Fund in FY 2026 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 1.00 new FTE position to answer questions from taxpayers and to assist with the administration of this new subtraction modification. The Department estimates that ongoing expenses for salaries and wages for the 1.00 FTE position and overhead expenses 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 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 increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to make an estimate of the amount of additional debt setoffs that would be intercepted as a result of the bill. Any fiscal effect associated with SB 277 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
Samir Arif, Department of Administration