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March 11, 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 283 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 283 is respectfully submitted to your committee.

SB 283 would discontinue the following tax credits, beginning in tax year 2026:

1. Contributions to an individual development account;
2. High Performance Incentive Program (HPIP);
3. Business and job development tax;
4. Plugging an abandoned oil or gas well;
5. Agritourism liability insurance;
6. Assistive technology contributions;
7. Declared disaster capital investment;
8. Environmental compliance;
9. Owners Promoting Employment Across Kansas (PEAK); and
10. Swine facility improvement.

Taxpayers would no longer be allowed to transfer HPIP tax credits after December 31, 2025. The Secretary of the Department of Commerce would not be allowed to approve Promoting Employment Across Kansas (PEAK) benefits on and after July 1, 2025. The bill would eliminate the credit of $20.0 million in income tax withholdings to Job Creation Program Fund beginning in FY 2026.

The bill would discontinue the Kansas Affordable Housing Tax Credit on April 1, 2025, and no allocation of credits would be awarded by the Kansas Housing Resources Corporation (KHRC) after March 31, 2025. Any Affordable Housing Tax Credit allocation that has been awarded to the owner of a qualified development by KHRC prior to April 1, 2025, would still be able to claim the tax credit and any applicable carry forward period.

Under current law, individual income tax rates are set at 5.2 percent for income under $23,000 ($46,000 for married filing jointly) and at 5.58 percent for income $23,000 and over ($46,000 and over for married filing jointly). The bill would lower the highest income tax bracket to 5.53 percent in tax year 2025, 5.45 in tax year 2026, and 5.35 percent in tax year 2027. Beginning in tax year 2028, regardless of filing status or income levels, the individual income tax rate would be set at 5.2 percent. The bill would also remove outdated language from previous tax years. The bill would become effective upon publication in the *Kansas Register*.

The Department of Revenue estimates that SB 283 would increase State General Fund revenues by $13.4 million in FY 2026 and $8.5 million in FY 2027, and decrease revenues by $12.1 million in FY 2028. The estimated fiscal effect by specific tax policy change would be as follows:

Tax Changes (SGF)	FY 2026	FY 2027	FY 2028
HPIP Ending TY 2026	$ 16,300,000	$ 49,000,000	$ 81,600,000
No PEAK After 07/01/2025	31,200,000	35,500,000	39,700,000
Job Creation Program Fund	20,000,000	20,000,000	20,000,000
Housing Tax Credit	--	2,100,000	16,800,000
Income Tax Rate Change	(54,100,000)	(98,100,000)	(170,200,000)
Total SGF	$ 13,400,000	$ 8,500,000	($ 12,100,000)

To formulate these estimates, the Department of Revenue reviewed data on HPIP tax credits from tax years 2019 through 2023, existing PEAK benefit agreements, and individual income tax returns from tax year 2023. It is assumed that an average of $97.9 million in HPIP tax credits are allowed each year of which one third is expected to be from new investment while the remaining portion are from carryforwards. Ending new credits would increase State General Fund revenues by $32.6 million in the first tax year, with this impact increasing to $97.9 million over three tax years as existing carryforwards are used. Not allowing new HPIP tax credits to be claimed is expected to increase tax liability by $16.3 million in FY 2026 which would account for one half of tax year 2026.

Not allowing additional PEAK agreements is expected to lower benefits allowed and increase State General Fund revenues by $31.2 million per fiscal year. With existing PEAK agreements that are estimated to expire over the few years, approximately $4.2 million would be gained in each year until all PEAK agreements expire with a full impact of $44.0 million when fully implemented.

The Insurance Department indicates insurance companies claimed approximately $11.5 million in HPIP tax credits in tax year 2022 and approximately $18.9 million in tax year 2023. If insurance companies are no longer able to claim the HPIP tax credit, then it would increase insurance premiums taxes collections that are distributed to the Start General Fund (99.0 percent) and the Insurance Department Service Regulation Fund (1.0 percent) by unknown amounts beginning in tax year 2025. The amount of HPIP tax credits claimed varies each year depending on the amount of capital investment in that year and the amount of tax credits that were carried forward from the previous tax year. The Insurance Department indicates the computer programming costs to eliminate the processing of future HPIP tax credits on insurance premium tax returns would be negligible and could be absorbed within existing resources.

The Department of Commerce indicates that it is currently responsible for administering the HPIP, PEAK, and Job Creation Program Fund programs. The Governor's budget includes continuing funding for these programs in FY 2026 to review applications from qualified businesses. Though no new HPIP tax credits would be issued in tax year 2026 and no new PEAK benefits would be issued in FY 2026 under the provisions of the bill, previously issued HPIP tax credits may be carried over for up to 16 years and current PEAK benefits could be extended up to seven years. The Department does not anticipate immediate changes to agency workload in FY 2026 as existing program managers would be required to review existing agreements, implement possible claw back plans, and satisfy tracking and reporting requirements. Any cost savings resulting from enactment of this bill would be delayed until FY 2027 when 3.00 FTE positions would no longer be needed, which would reduce agency expenditures by $352,823 including $281,938 from the Economic Development Initiatives Fund and $70,885 from PEAK and HPIP fee funds. The Department collected $167,500 in various applications fees from these programs in FY 2024. The Department estimates that similar application fees would not be collected from these programs beginning in FY 2026.

The bill would also eliminate the credit of $20.0 million from income tax withholdings to Job Creation Program Fund beginning in FY 2026. The Department of Commerce indicates that this fund is the main deal closing fund for the state that is used to promote job creation and economic development by funding projects that are unique economic development opportunities, the major expansion of an existing Kansas commercial enterprise, or the potential location in Kansas of the operations of a major employer. Job creation funds are awarded to companies with an expectation that the company will create or retain a specific number of jobs, provide training, or be used for other types of economic development. These awards are made with an expectation that the company will create or retain a specific number of jobs, provide training, or be used for other types of economic development. Under current law, the Job Creation Program Fund is only authorized to receive $20.0 million in both FY 2025 and FY 2026; however, long term budget profiles produced by the Kansas Legislative Research Department and the Division of the Budget assume the continuation of the $20.0 million in out year budget projections. Eliminating HPIP, PEAK, and the Job Creation Program Fund has the potential to reduce job creation, capital investment, and economic development activity in the state.

Kansas Housing Resources Corporation (KHRC) indicates that it has issued $56.5 million in Affordable Housing Tax Credit allocations to the owners of qualified developments since the program began in 2023. KHRC indicates that there is usually at least a two-year lag before a qualified project receives its tax credit allocation and when the qualified project is complete and receives its allocation certificate. KHRC estimates that approximately $2.1 million of all qualified projects would receive the allocation certificate before the July 1, 2025. KHRC has reviewed current project completion plans from qualified projects and estimates that approximately $12.6 million in qualified projects would receive allocation certificates in tax year 2026 (FY 2027), $41.3 million in tax year 2027 (FY 2028), and $15.2 million in tax year 2028 (FY 2029). The bill would allow current projects that have received their allocation to receive the tax credit when the project is complete, but no further projects would receive a tax credit allocation or be able to claim the tax credit. It is estimated that discontinuing the Kansas Affordable Housing Tax Credit would increase State General Fund revenues by $2.1 million in FY 2027 and $16.8 million in FY 2028. Approved projects can claim the tax credit amount for next ten years.

The Department of Revenue used a simulation to estimate the fiscal effect of the rate decreases for tax years 2025 and 2026. These follow a general trend of every 0.01 percent decrease to the upper bracket would lower total tax liability by $5.9 million, with the impact of $224.9 million when fully implemented. The Department estimates that the number of tax returns grows approximately 1.0 percent each year. The Department of Revenue indicates that repealing the other tax credits in the bill are not estimated to have a fiscal effect because they are currently unused.

The Department of Revenue indicates that it is unable to determine the full administrative costs to implement the bill. The Department indicates it would require at least $44,000 from the State General Fund in FY 2026 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 SB 283 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
Sherry Rentfro, Department of Commerce
Kyle Strathman, Insurance Department