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Division of the Budget

Sam Brownback, Governor

March 17, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2381 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2381 is respectfully submitted to your committee.

HB 2381 would create the March to Economic Growth Act that would reduce the individual and corporate income tax rates based on the amount of actual State General Fund tax receipts that are collected above the amount of receipts that were collected in the base year of FY 2010. The State General Fund tax receipts that would be tracked under this bill would be the individual and corporate income taxes, financial institutions privilege taxes, retail sales taxes, compensating use taxes, cigarette and tobacco product taxes, cereal malt beverage and liquor gallonage taxes, liquor enforcement taxes, liquor drink taxes, corporate franchise taxes, annual franchise fees, and mineral severance taxes.

Beginning with FY 2011, the bill would require the Director of Legislative Research to certify to the Secretary of Revenue and the Director of the Budget any amount of actual State General Fund tax receipts that are collected in any fiscal year that exceed the amount of State General Fund tax receipts that were collected in FY 2010. The Secretary of Revenue would be required to use the certified amount to calculate the percentage increase in State General Fund tax receipts and would be required to reduce the individual and corporate income tax rates in the current tax year by the same percentage for each income tax category and bracket. The rates would also be adjusted for inflation by discounting the tax rate change by the inflationary rate.

If any individual or corporate income tax rate for any income tax category or bracket is calculated to be below 0.4 percent, then the rate would be zero. Rates would not be adjusted in any fiscal year when the actual State General Fund tax receipts are less than the amount collected in the previous fiscal year. Any reductions in individual and corporate income tax rates would be reported to the Chairperson of the Senate Committee on Assessment and Taxation, the Chairperson of the House Committee on Taxation, the Governor, and would be published in the *Kansas Register* prior to September 15 in any year in which there is a reduction.

Under current law, the retail sales tax and compensating use tax rate is scheduled to be reduced from 6.3 percent to 5.7 percent on July 1, 2013. This bill would keep the rate at 6.3 percent and would adjust the amount of revenue that would be distributed to the State General Fund and State Highway Fund.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	($120,000,000)	($120,000,000)
Expenditure	--	--	$98,600	$98,600
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2381 would decrease State General Fund revenues by $120.0 million in FY 2012 and by $539.8 million in FY 2013. The decrease in revenues and how the November 2, 2010 consensus revenue estimate for FY 2012 would be affected are shown in the following table:

Effect on FY 2012 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 2, 2010)	Change in Revenue FY 2012	Proposed Adjusted CRE FY 2012
Motor Carrier	$ 27,000	$ --	$ 27,000
Income Taxes:			
Individual	2,705,000	(107,200)	2,597,800
Corporate	275,000	(12,800)	262,200
Financial Institutions	21,000	--	21,000
Excise Taxes:			
Retail Sales	2,090,000	--	2,090,000
Compensating Use	295,000	--	295,000
Cigarette	97,000	--	97,000
Corporate Franchise	8,000	--	8,000
Severance	94,300	--	94,300
All Other Excise Taxes	96,400	--	96,400
Other Taxes	127,000	--	127,000
Total Taxes	$5,835,700	($ 120,000)	$5,715,700
Other Revenues:			
Interest	$ 11,800	$ --	$ 11,800
Transfers	(93,700)	--	(93,700)
Agency Earnings	56,800	--	56,800
Total Other Revenues	($ 25,100)	$ --	($ 25,100)
Total Receipts	$5,810,600	($ 120,000)	$5,690,600

To formulate these estimates, the Department of Revenue reviewed data on actual State General Fund tax receipts for FY 2010 and the consensus revenue estimates for FY 2011 and FY 2012. State General Fund tax receipts from the selected taxes are estimated to grow by about 12.63 percent, or $610.0 million, in FY 2011. Inflation in calendar year 2010 was 1.5 percent, reducing the 12.63 percent estimated in FY 2011 by the amount of inflation would require an 11.13 percent reduction to the individual and corporate income tax rates. This rate change would reduce State General Fund tax receipts in FY 2012 by approximately $120.0 million, including $107.2 million from individual income taxes and $12.8 million from corporate income taxes.

Using the current consensus revenue estimates for FY 2012 and factoring in the estimated decrease of $120.0 million outlined above, State General Fund tax receipts from the selected taxes are expected to increase by 15.14 percent, or $731.2 million, in FY 2012. Inflation in calendar year 2011 is estimated to be approximately 1.6 percent, reducing the 15.14 percent by the amount of inflation would require a 13.54 percent reduction to the individual and corporate income tax rates which would reduce State General Fund tax receipts in FY 2013 by $539.8 million, including $484.1 million from individual income taxes and $55.7 million from corporate income taxes.

The Division of the Budget notes that the changes in tax receipts estimated by the Department of Revenue do not account for the potential cumulative effect on other taxes at the state and local level. This fiscal effect does not account for possible increases in revenue from the retail sales tax or other excise taxes as a result of increased disposable income, economic growth, net migration, or other factors that have the potential to partially or fully offset the reduction in revenue reported by the Department of Revenue. Calculating the cumulative fiscal effect of this legislation would require dynamic scoring analysis, which is not currently used by the Department of Revenue or the Division of the Budget in the preparation of fiscal notes.

The Department of Revenue also indicates the bill would require $98,600 from the State General Fund in FY 2012 for administrative costs to modify the automated tax system. The Department estimates that the bill would require 2,820 hours of in-house programming and 480 hours of testing which would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation (KDOT) indicates the bill would have no fiscal effect on sales tax revenue dedicated to the State Highway Fund in FY 2012, FY 2013, or FY 2014. However, it is estimated that sales tax revenue dedicated to the State Highway Fund would be reduced by a total of $88.5 million between FY 2015 and FY 2020, and expenditures would have to be reduced by the same amount over this time period. KDOT indicates the reduction in revenue would not allow it to fully fund the new ten-year comprehensive transportation plan, known as T-WORKS, which was enacted by the 2010 Legislature. Any fiscal effect associated with HB 2381 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue