

February 20, 2012

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

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2447 by Joint Committee on Energy and Environmental Policy

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2447 is respectfully submitted to your committee.

HB 2447 would increase the tax credit for plugging abandoned oil or gas wells from 50.0 percent of the amount of qualified expenditures to 100.0 percent in tax year 2012 and in each future tax year. Under current law, the taxpayer is required to own the land where the well has been plugged to qualify for the tax credit; however, the bill would also allow land that is leased by the taxpayer to qualify.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$40,000)	(\$40,000)
Expenditure	--	--	\$12,000	\$12,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2447 would decrease State General Fund revenues by \$40,000 in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,065,000	(40)	3,064,960
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	<u>141,000</u>	<u>--</u>	<u>141,000</u>
Total Taxes	\$6,322,800	(\$ 40)	\$6,322,760
Other Revenues:			
Interest	\$ 7,400	\$ --	\$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	<u>51,500</u>	<u>--</u>	<u>51,500</u>
Total Other Revenues	(\$ 31,400)	\$ --	(\$ 31,400)
Total Receipts	\$6,291,400	(\$ 40)	\$6,291,360

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$40,000)	(\$40,000)	(\$40,000)	(\$40,000)

To formulate these estimates, the Department of Revenue reviewed data on the tax credit for plugging abandoned oil or gas wells. The Department indicates that approximately \$20,000 in tax credits were claimed in tax year 2010. The Department estimates that by doubling the amount of the tax credit and by allowing taxpayers with leased land to qualify for the tax credit, the total amount of tax credits that would be claimed in tax year 2012 or FY 2013 would increase to \$60,000. Therefore, the net fiscal effect of HB 2447 would be a reduction of State General Fund revenues by an additional \$40,000 in FY 2013 and each future fiscal year (\$60,000 - \$20,000).

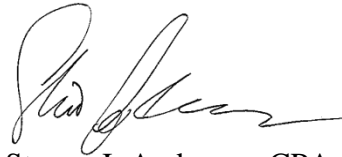
The Honorable Richard Carlson, Chairperson

February 20, 2012

Page 3—2447

The Department of Revenue indicates the bill would require \$12,000 from the State General Fund for administrative costs to update tax credit schedules and instructions, and to modify the automated tax system. The required programming for this bill by itself (360 hours in in-house programming and 40 hours of implementation) 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. Any fiscal effect associated with HB 2447 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

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

cc: Steve Neske, Revenue
Tom Day, KCC