

February 22, 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 2547 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2547 is respectfully submitted to your committee.

HB 2547 would amend the Promoting Employment Across Kansas (PEAK) Act. The bill would allow a Kansas small business to retain 95.0 percent of its withholding taxes for up to three years for each additional employee hired above the highest level of employment that the business has hired in the previous five years. The small business would be required to expand an existing business facility, office, department or other operation in Kansas and locate the related jobs in Kansas to qualify for the benefits. The benefits would be required to be approved by the Secretary of Commerce and would be decreased if employment levels are reduced. The bill defines a Kansas small business as a qualified company located in Kansas that has fewer than 100 employees.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$500,000)	(\$500,000)
Expenditure	--	--	\$1,750	\$1,750
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2547 would decrease State General Fund revenues by \$500,000 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	(500)	3,064,500
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	(\$ 500)	\$6,322,300
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	(\$ 500)	\$6,290,900

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	(\$1,000,000)	(\$1,500,000)	(\$1,500,000)	(\$1,500,000)

To formulate these estimates, the Department of Revenue reviewed data on the PEAK Program from the Department of Commerce. The Department indicates that the bill would allow growing small businesses with fewer than 100 employees to be eligible for PEAK benefits if certain conditions are met. The Department estimates that \$500,000 in PEAK benefits would be provided to small businesses in FY 2013, which would reduce State General Fund receipts by the same amount. This represents the estimated additional withholding taxes that would be retained by small businesses participating in the PEAK Program during FY 2013 that otherwise would not have met the PEAK hiring and wage criteria that exists under current law. The Department estimates that an additional \$500,000 in new benefits would be added each year for small

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businesses; however, because benefits are only allowed for a three-year period, it is estimated that the maximum amount of Kansas small business PEAK benefits that would be provided in any year would be approximately \$1.5 million.

The Department of Revenue indicates the bill would require \$1,750 from the State General Fund for administrative costs to update publications and to modify the automated tax system. The required programming for this bill by itself (40 hours of in-house programming and 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.

The Department of Commerce indicates that it currently manages the PEAK Program and is responsible for determining if a company is qualified to receive PEAK benefits. The Department indicates that the proposed changes to the PEAK Program could be implemented within the agency's existing resources and staff levels. Any fiscal effect associated with HB 2547 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
Jason Glasrud, Commerce