

February 3, 2012

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 296 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 296 is respectfully submitted to your committee.

SB 296 would create a non-refundable income tax credit for qualified tuition and related expenses that are paid to a Kansas educational institution. The credit would be 10.0 percent of the credit claimed against the taxpayer's federal income tax liability under Section 25A of the federal Internal Revenue Code, which authorizes the Hope and Lifetime Learning Education Tax Credits. The unused portion of the credit could be carried forward until the total amount of the credit has been deducted. The credit would be effective beginning in tax year 2012.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$11,200,000)	(\$11,200,000)
Expenditure	--	--	\$146,100	\$146,100
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that SB 296 would decrease State General Fund revenues by \$11.2 million 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	(11,200)	3,053,800
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	(\$ 11,200)	\$6,311,600
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	(\$ 11,200)	\$6,280,200

To formulate this estimate, the Department of Revenue reviewed data on the Hope and Lifetime Learning Education Tax Credits claimed at the federal level. In tax year 2009, Kansas taxpayers claimed a total of \$166.6 million in federal Hope and Lifetime Learning Education Tax Credits. Providing a 10.0 percent state tax credit would allow \$16.7 million in state tax credits to be claimed; however, because the state tax credit would be non-refundable, it is assumed that only 67.0 percent of the credits would be used by Kansas taxpayers. Given these assumptions, the estimated reduction in income tax receipts would be approximately \$11.2 million in FY 2013 (\$166.6 million x 0.10 x 0.67). It is estimated that the remaining \$5.5 million would be carried forward to be used in future tax years. Assuming that 20.0 percent of the carryover amount would be used in tax year 2013, the fiscal effect in FY 2014 would increase to approximately \$12.3 million.

The Department of Revenue indicates it would require \$146,100 from the State General Fund to implement this new tax credit in FY 2013. The Department indicates it would require

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\$63,300 for salaries and wages and operational expenses for 1.00 new FTE position to manage the implementation of this new tax credit. This bill would require modifications to the automated tax system. The Department estimates that the bill would require 1,560 hours of contract programming time at a cost of \$46,800 and 31 weeks of testing time at a cost of \$36,000. Any fiscal effect associated with the passage of SB 296 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