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Steven J. Anderson, CPA, MBA, Director
Division of the Budget
Sam Brownback, Governor

February 16, 2011

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 86 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 86 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on the federal adjusted gross income, which includes income attributed to capital gains. SB 86 would begin phasing out the use of income from capital gains in calculating Kansas income taxes. The bill would subtract 20.0 percent of the amount of income attributed to capital gains from the amount of federal adjusted gross income in tax year 2011, 40.0 percent in tax year 2012, 60.0 percent in tax year 2013, 80.0 percent in tax year 2014, and 100.0 percent in tax year 2015 and each year thereafter.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	($43,028,535)	($43,028,535)
Expenditure	--	--	$60,300	$60,300
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 86 would decrease State General Fund revenue by $43,028,535 in FY 2012. 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	(42,429)	2,662,571
Corporate	275,000	(600)	274,400
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	$5,835,700	($ 43,029)	$5,792,671
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	$5,810,600	($ 43,029)	$5,767,571

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

	FY 2013	FY 2014	FY 2015	FY 2016
State General Fund	($68,146,000)	($107,265,000)	($153,528,000)	($195,446,000)

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service (IRS) on the amount of capital gains reported by Kansas taxpayers. The most current information available from the IRS indicates that Kansas taxpayers reported capital gains income of approximately $5.1 billion in tax year 2007 and $2.8 billion in tax year 2008. The Department of Revenue estimates that Kansas taxpayers will report capital gains of approximately $3,085,810,000 in tax year 2011 and that capital gains will continue to grow by 5.0 to 10.0 percent per year over the five-year phase out period. Applying the 20.0 percent exemption in tax year 2011 would exclude $617,162,000 in capital gains from Kansas income tax calculations and applying an income tax rate of 4.2 percent would reduce State General Fund revenue by $25,920,804. With Kansas capital gains continuing to grow and the exemption amount increasing to 40.0 percent in tax year 2012, it is estimated that State General Fund revenue would decrease by $57,025,769. Because tax years and fiscal years do not line up, the effect on FY 2012 is calculated by adding tax year 2011 with part of tax year 2012. The Department of Revenue estimates that the reduction to State General Fund tax revenues would be $43,028,535 in FY 2012.

The Department of Revenue indicates the bill would require $60,300 from the State General Fund in administrative costs to implement the bill and to modify the automated tax system. The required programming for this bill by itself (1,120 hours in in-house programming and 920 hours of testing) 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 SB 86 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