

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 95 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 95 is respectfully submitted to your committee.

SB 95 would phase out the Kansas corporate income tax over a five year period. Under current law, the corporate income tax is calculated by combining the normal tax rate of 4.0 percent of Kansas taxable income and the surtax rate of 3.05 percent of Kansas taxable income for income above \$50,000. The bill would reduce these tax rates by 20.0 percent for each tax year beginning in tax year 2011 until the tax would be eliminated in tax year 2015.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2011 SGF | FY 2011 All Funds | FY 2012 SGF | FY 2012 All Funds |
| Revenue | -- | -- | (\$70,580,000) | (\$70,580,000) |
| Expenditure | -- | -- | \$34,800 | \$34,800 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that SB 95 would decrease State General Fund revenues by \$70,580,000 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 | -- | 2,705,000 |
| Corporate | 275,000 | (70,580) | 204,420 |
| Financial Institutions | 21,000 | -- | 21,000 |
| Excise Taxes: | | | |

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| | | | |
|------------------------|----------------|-------------|----------------|
| 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 | <u>127,000</u> | <u>--</u> | <u>127,000</u> |
| Total Taxes | \$5,835,700 | (\$ 70,580) | \$5,765,120 |
| Other Revenues: | | | |
| Interest | \$ 11,800 | \$ -- | \$ 11,800 |
| Transfers | (93,700) | -- | (93,700) |
| Agency Earnings | <u>56,800</u> | <u>--</u> | <u>56,800</u> |
| Total Other Revenues | (\$ 25,100) | \$ -- | (\$ 25,100) |
| Total Receipts | \$5,810,600 | (\$ 70,580) | \$5,740,020 |

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

| | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> |
|--------------------|-----------------|-----------------|-----------------|-----------------|
| State General Fund | (\$132,830,000) | (\$201,110,000) | (\$275,900,000) | (\$334,260,000) |

To formulate these estimates, the Department of Revenue reviewed data on corporate income tax collections and assumes that corporate income tax revenue would grow by 5.0 percent each year for the next five fiscal years. Based on information from the November 2010 consensus revenue estimate, corporate income tax receipts are estimated to be \$275.0 million for FY 2012. The Department estimates that under the lower corporate tax rates for tax year 2011, it would collect \$204,420,000 in corporate income taxes in FY 2012, which would be a State General Fund revenue reduction of \$70,580,000. Corporate income tax revenue would continue to decline as corporate income tax rates are reduced over the five-year phase out period.

The Department of Revenue indicates the bill would require \$34,800 from the State General Fund in administrative costs to change tax forms and instructions and to modify the automated tax system. The required programming for this bill by itself (680 hours in in-house programming and 480 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 95 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