SESSION OF 2011

SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR SENATE BILL NO. 1

As Amended by House Committee of the Whole

Brief*

House Sub. for SB 1, the March to Economic Growth Act (MEGA), would provide for reductions in individual and corporation income tax rates beginning in tax year 2012 based on the extent to which a certain specified group of State General Fund (SGF) tax sources have increased over the base year of FY 2010.

Income Tax Rate Rollback Provisions

The Director of Legislative Research would be required to certify at the conclusion of each fiscal year beginning with FY 2011 the amount by which a specific set of SGF tax receipts – generally most major income, privilege, and excise taxes – has grown over the FY 2010 base year. The Secretary of Revenue would then be required to compute that percentage growth and reduce all individual and corporation income tax brackets for the upcoming tax year by that percentage, except that the corporation income tax base rate would not be allowed to fall below 3.5 percent.

An exception to this formula would be provided when the selected set of tax sources produces less revenue in a given fiscal year relative to the preceding fiscal year, in which case no income tax rate reductions would be provided for the upcoming tax year. Following any such year when no rate reductions were triggered, the formula would be further

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org adjusted to test the next fiscal year's receipts against the preceding fiscal year's receipts.

The Secretary of Revenue would be required to report all income tax rate reductions triggered under the formula to the Governor, the Chairperson of the Senate Assessment and Taxation Committee, and the Chairperson of the House Taxation Committee; and to publish such reductions in the *Kansas Register* prior to September 15.

Background

The original bill dealt with various sales tax rate disclosure requirements for retailers. The House Taxation Committee on March 15 voted to strip the bill's original provisions, insert the provisions of HB 2381, and recommend that a substitute bill be created.

The House Committee of the Whole on March 18 removed an inflation-adjustment factor in the formula and removed language that would have permanently frozen the sales tax rate at 6.3 percent. A second House Committee of the Whole amendment added the floor provision for the corporation income tax base rate.

Based on actual FY 2010 receipts and the current Consensus estimate for FY 2011, SGF tax receipts from the selected tax sources are expected to grow by approximately $610 million, or 12.63 percent, as summarized in the following table:

Selected SGF Tax Receipts

($ in thousands)

	FY 2010 Actual	FY 2011 Est.
Individual	$ 2,418,208	$ 2,577,175
Corporation	224,940	260,000
Financial Inst.	16,515	20,770
Retail Sales	1,652,037	2,000,000
Comp. Use	205,540	280,000
Cigarette	99,829	97,000
Tobacco Prod.	6,352	6,600
CM Beverage	1,989	1,900
Liq. Gallonage	17,953	18,800
Liq. Enforce	54,827	58,000
Liq. Drink	8,930	9,300
Corp. Franchise	41,462	18,000
Severance	81,870	92,800
TOTAL THESE SOURCES	**$ 4,830,452**	**$ 5,440,345**
GROWTH		**$ 609,893**
PCT GROWTH		**12.63%**

Applying the 12.63 percent rate reduction to all individual and corporation income tax brackets for tax year 2012 (except that the corporation base rate could not fall below the specified 3.5 percent floor) would adjust the rates as follows:

	Current	Proposed
Individual	3.50 %	3.058 %
Individual	6.25	5.461
Individual	6.45	5.635
Corporation	4.00 %	3.500 %
Corporation	7.00	6.116

The Department of Revenue estimates that such reductions in income tax rates would, by virtue of changes in withholding and estimated payments, have the following impact on FY 2012 SGF receipts:

	(in thousands)
Individual	$ (121,500)
Corporation	(14,400)
Total	**$ (135,900)**

Based on the current Consensus estimates for FY 2012, the selected tax sources would be expected to be above the FY 2010 base year receipts, even after the $135.9 million reduction, by $715.3 million, or 14.81 percent.

Selected SGF Tax Receipts

($ in thousands)

	FY 2012 Est.	FY 2012 Proposed
Individual	$ 2,705,000	$ 2,583,500
Corporation	275,000	260,600
Financial Inst.	21,000	21,000
Retail Sales	2,090,000	2,090,000
Comp. Use	295,000	295,000
Cigarette	97,000	97,000
Tobacco Prod.	6,800	6,800
CM Beverage	1,900	1,900
Liq. Gallonage	19,200	19,200
Liq. Enforce	59,000	59,000
Liq. Drink	9,500	9,500
Corp. Franchise	8,000	8,000
Severance	94,300	94,300
TOTAL THESE SOURCES	**$ 5,681,700**	**$ 5,545,800**
REDUCTION BELOW CURRENT LAW		**$ (135,900)**
GROWTH OVER FY 2010		**715,348**
PCT. GROWTH OVER FY 2010		**14.81%**

Applying the further income tax rate reductions to tax year 2013 and taking into account the 3.5 percent floor for the corporation base rate would change the rates as follows:

	TY 2012	TY 2013
Individual	3.058 %	2.610 %
Individual	5.461	4.650
Individual	5.635	4.800
Corporation	3.500 %	3.500 %
Corporation	6.116	5.210

The Department of Revenue estimates that such reductions would have the following impact on FY 2013 receipts:

	(in thousands)
Individual	$ (541,900)
Corporation	(61,600)
Total	**$ (603,500)**

Additional income tax reductions of growing magnitude would be expected beginning in FY 2014 based on the assumption that SGF receipts would be expected to continue to grow under current law. Computation of future fiscal notes for income taxes under this formula is extremely problematic, given that the Consensus estimates for FY 2013 will not be made until November 2011; and estimates for FY 2014 will not be made until November 2012.