

February 5, 2013

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2059 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2059 is respectfully submitted to your committee.

Under current law, taxpayers who are partners or S corporation shareholders are required to compute a different adjusted basis for their partnership interest or S corporation stock for Kansas income tax purposes than for federal income tax purposes. HB 2059 would eliminate this requirement, which was included in the major income tax reduction bill of the 2012 Legislative Session (HB 2117). The bill also includes clarifying language that the determination of the “50 barrels-a-day” production limitation for new pool oil wells would be based on the average oil production per day during the first six months of production.

The bill provides clarifying language that any state income tax references to federal forms, schedules, or line numbers on a federal form or schedule would be as they existed for tax year 2011 or as revised by the Internal Revenue Service. The provision would also apply to comparable federal forms, schedules, and line numbers used by non-United States residents when filing their federal income tax returns. The bill includes clarifying language that individuals are allowed to itemize deductions on their Kansas income tax form. The bill eliminates an outdated reference to one of the food sales tax rebate statutes and amends an incorrect statutory reference. The bill would take effect upon its publication in the *Kansas Register*.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$8,000,000)	(\$8,000,000)
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2059 would decrease State General Fund revenues by \$8.0 million in FY 2014 and in each future fiscal year. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000
Income Taxes:			
Individual	2,385,000	(8,000)	2,377,000
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 8,000)	\$5,547,500
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 8,000)	\$5,456,300

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

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
State General Fund	(\$8,000,000)	(\$8,000,000)	(\$8,000,000)	(\$8,000,000)

To formulate these estimates, the Department of Revenue reviewed data on determining partnership interest and S corporation stock basis for Kansas income taxes. Basis is the taxpayer's cost for a particular asset. When a taxpayer sells an asset, gain income from the sale is determined by subtracting from the sale proceeds the selling taxpayer's basis in that asset. The bill would require Internal Revenue Service guidelines to be used for determining the partnership

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interest and S corporation stock basis, which are less restrictive than the basis calculations for Kansas income taxes under current law. The Department of Revenue estimates that the change in basis calculation would reduce State General Fund revenues by \$8.0 million in FY 2014 and in each future fiscal year. The Department indicates that the other provisions of the bill would have no fiscal effect on state revenues. Any fiscal effect associated with HB 2059 is not reflected in *The FY 2014 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