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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

February 13, 2013

CORRECTED

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

Dear Representative Carlson:

SUBJECT: Corrected Fiscal Note for HB 2110 by House Committee on Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2110 is respectfully submitted to your committee.

HB 2110 would lower individual income rates, eliminate certain deductions, and make changes to the retail sales tax and compensating use tax rates. Under current law, two tax brackets are used to determine individual income tax rates: a 3.0 percent rate for income under $15,000 ($30,000 for married filing jointly) and a 4.9 percent rate for income $15,000 and over ($30,000 for married filing jointly). For tax year 2014 and 2015, the bill would lower the individual income tax rate from 3.0 percent to 2.5 percent for income under $15,000 ($30,000 for married filing jointly) and keep in place the current tax rate of 4.9 percent for income $15,000 and over ($30,000 and over for married filing jointly). For tax year 2016, the bill would again lower the individual income tax rate from 2.5 percent to 1.9 percent for income under $15,000 ($30,000 for married filing jointly) and keep in place the current tax rate of 4.9 percent for income $15,000 and over ($30,000 and over for married filing jointly). For tax year 2017, the bill would keep in place the 1.9 percent tax rate for income under $15,000 ($30,000 for married filing jointly) and would lower the tax rate from 4.9 percent to 3.5 percent for income over $15,000 ($30,000 for married filing jointly).

The bill would create a procedure to allow income tax rates to decrease in future tax years. Beginning in FY 2015, if actual State General Fund receipts from the current fiscal year exceed actual State General Fund receipts from the preceding fiscal year by more than 4.0 percent, the Secretary of Revenue would estimate the individual tax rate reductions that would decrease receipts by that amount. Rate reductions would be applied to the highest marginal rates and would be required to be published by October 15 of the year prior to taking effect. Lower tax receipts would not trigger an automatic rate increase. The bill would also eliminate the itemized deductions for real property taxes and mortgage interest.

The bill would maintain the state retail sales and compensating use tax rates at 6.3 percent on and after July 1, 2013 and would set the amount of state retail sales and compensating use tax to be deposited in the State General Fund at 83.33 percent and the State Highway Fund at 16.67 percent. Under current law, the state retail sales and compensating use tax rates and distributions are set to be adjusted as follows:

Date of Rate Change	Tax Rate	Percent to State General Fund	Percent to State Highway Fund
Current law	6.3 %	88.767	11.233
July 1, 2013	5.7	81.579	18.421

In the fiscal note originally issued, the fiscal effect of the bill included incorrect calculations. Additionally, the fiscal effect of the bill for future fiscal years was not available at the time the fiscal note was originally issued and is now included in this version.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	$455,400,000	$455,400,000
Expenditure	--	--	$141,000	$141,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2110 would increase State General Fund revenues by $455.4 million in FY 2014 and by $356.0 million in FY 2015. The increase 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	193,100	2,578,100
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	262,300	2,214,300
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	151,500	--	151,500
Total Taxes	$5,555,500	$ 455,400	$6,010,900
Other Revenues:			
Interest	$ 9,700	$ --	$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	55,000	--	55,000
Total Other Revenues	($ 91,200)	$ --	($ 91,200)
Total Receipts	$5,464,300	$ 455,400	$5,919,700

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

	FY 2015	FY 2016	FY 2017	FY 2018
State General Fund	$356,000,000	$320,000,000	$13,700,000	($459,700,000)

To formulate these estimates, the Department of Revenue reviewed data on current income tax collections, tax deductions, retail sales tax collections, and compensating use tax collections. The Department estimates that reducing the bottom individual income tax rates to 2.5 percent beginning in tax year 2014 would reduce State General Fund revenues from individual income tax collections by $37.9 million in the last part of FY 2014 and by $128.1 million in FY 2015. Eliminating the deduction for mortgage interest beginning in tax year 2013 is estimated to increase State General Fund revenues from individual income tax collections by $162.5 million in FY 2014 and by $131.7 million in FY 2015. Eliminating the deduction for real property taxes beginning in tax year 2013 is estimated to increase State General Fund revenues from individual income tax collections by $68.5 million in FY 2014 and by $55.5 million in FY 2015. The changes to the retail sales and compensating use tax rates are estimated to provide an additional $262.3 million in FY 2014 and $296.9 million in FY 2015. The Department estimates that all of the additional revenue collected from the retail sales and compensating use tax rate changes and revenue distribution adjustments would be distributed to the State General Fund. The bill would not affect the amount of revenue that is estimated to be distributed to the State Highway Fund in FY 2014 or any future fiscal year.

The Department indicates that the bill would require $141,400 from the State General Fund in FY 2014 to implement the bill and to modify the automated tax system. The required programming for this bill by itself 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.

The Kansas Department of Transportation (KDOT) indicates the bill would have no fiscal effect on its budget or the amount of State Highway Fund revenue that is collected. Any fiscal effect associated with HB 2110 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Ben Cleeves, Transportation