

February 7, 2014

REVISED

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Revised Fiscal Note for HB 2464 by House Committee on Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2464 is respectfully submitted to your committee.

Under current law, Kansas businesses are allowed to claim an expensing deduction for investments in qualifying machinery and equipment that are placed into service in Kansas. HB 2464 would extend this deduction to allow banks, trust companies, and savings and loans to claim the Kansas expensing deduction for tax year 2013 and each future tax year.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	(\$1,100,000)	(\$1,100,000)
Expenditure	--	--	\$54,665	\$54,665
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2464 would reduce State General Fund revenues by \$1.1 million in FY 2015. The decrease in revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	\$ 24,000	\$ --	\$ 24,000
Income Taxes:			
Individual	2,525,000	--	2,525,000
Corporate	380,000	--	380,000
Financial Institutions	34,500	(1,100)	33,400
Excise Taxes:			
Retail Sales	2,160,000	--	2,160,000
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	<u>161,700</u>	<u>--</u>	<u>161,700</u>
Total Taxes	\$5,975,200	(\$ 1,100)	\$5,974,100
Other Revenues:			
Interest	\$ 10,000	\$ --	\$ 10,000
Transfers	(118,000)	--	(118,000)
Agency Earnings	<u>49,900</u>	<u>--</u>	<u>49,900</u>
Total Other Revenues	(\$ 58,100)	\$ --	(\$ 58,100)
Total Receipts	\$5,917,100	(\$ 1,100)	\$5,916,000

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

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
State General Fund	(\$550,000)	(\$550,000)	(\$550,000)	(\$550,000)

To formulate these estimates, the Department of Revenue reviewed data on privilege taxes paid by banks, trust companies, and savings and loans. The Department estimates that by allowing these financial institutions to claim the expensing deduction for certain qualifying investments, privilege tax collections would be reduced by approximately \$550,000 per year. Because the bill is retroactive to tax year 2013, the Department assumes financial institutions would amend tax year 2013 returns and apply for refunds in FY 2015. Therefore, the reduction of privilege taxes in FY 2015 would be \$1.1 million, with \$550,000 attributed to refunds for tax year 2013 and \$550,000 attributed to tax year 2014. Since the original fiscal note was issued, the Department of Revenue revised its fiscal effect estimate from \$4.0 million to \$1.1 million in the first year.

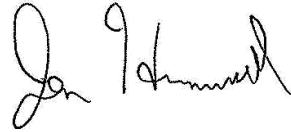
The Honorable Richard Carlson, Chairperson

February 7, 2014

Page 3—HB 2464

The Department of Revenue indicates that it would require \$54,665 from the State General Fund in FY 2015 for the costs associated with updating forms and instructions and to modify the automated tax system. The required programming for this bill by itself (896 hours in in-house programming and 920 hours of implementation) 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 HB 2464 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Hummell". The signature is fluid and cursive, with the first name "Jon" being more prominent than the last name "Hummell".

Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Revenue
Judi Stork, Banking Department