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**Jon Hummell, Interim Director**

**Division of the Budget**

**Sam Brownback, Governor**

May 20, 2014

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

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2762 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2762 is respectfully submitted to your committee.

HB 2762 would create the Kansas Tax Weight-Loss Act. The bill would create a new income tax credit for the employment of individuals with intellectual or developmental disabilities. The bill defines tax weight as the sum of the home and community based services, the amount of Social Security disability or supplemental security income received by the individual, the dollar amount of food stamps, subsidy cost of subsidized housing, and an average cost for medical costs. The income tax credit would be for the amount of tax weight that is reduced on an annual basis as a result of income received by the new eligible employee. For each person that no longer relies on Medicaid or other government funding sources there will be a reduction in the amount paid for government services for that person. In the case of programs supported by Medicaid funds, that amount that would have been matched by the federal government will be reduced based on the current FMAP rate.

The tax credit would be calculated by the Department of Revenue in cooperation with the community service provider providing services to the new eligible employee or employees. For the first year of the tax credit program, a qualifying employer would have the option of receiving a tax credit in the amount of 30.0 percent of the amount of withholding taxes paid on at least five qualifying employees or the amount of the tax weight calculations. Employers would be required to apply to the Department of Revenue in order to qualify for this income tax credit and the Department of Revenue would be allowed to review or audit each qualifying employer to ensure that the employer continues to be eligible for this tax incentive program.

The bill also provides a non-refundable income tax credit for 20.0 percent of the costs associated with providing job training services designed to facilitate and enhance the job related performance of an eligible individual. The employer would also be able to claim a tax credit for costs associated with providing day care services to the children of an eligible individual or transportation services. The bill would limit the tax credit to $800 for the eligible costs associated with each eligible employee in the first year, $600 in the second year, and $400 for the third and following years.

The Department of Revenue indicates HB 2762 would reduce State General Fund revenues; however, information is not available to accurately estimate the number of taxpayers that would qualify for this new income tax credit and the amount of tax credits that would be claimed by each eligible taxpayer to make a precise estimate of the fiscal effect. The Department of Revenue assumes that the average tax weight for qualifying individuals would be approximately $40,000 for the costs associated with Social Security disability or supplemental security income received by the individual, the dollar amount of food stamps, subsidy cost of subsidized housing, and an average cost for medical costs. If 100 eligible employees are hired as a result of this bill, then employers would be eligible to claim $4.0 million in tax weight credits. The Department of Revenue estimates that an additional $80,000 in non-refundable tax credits would be claimed by employers that provide job training services, day care services, and transportation services.

The Department of Revenue indicates that the bill would require $145,950 from the State General Fund in FY 2015 to implement the bill, create new forms and instructions, 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 Health and Environment indicates the bill would reduce expenditures from the State General Fund. The agency indicates that the offset to the income tax credit would be a corresponding reduction in social security disability and supplemental social security payments, HCBS waiver costs, cost of food stamps, and subsidy cost for subsidized housing. The amount of the offset in dollars from all funds is equal to the amount of the income tax credit. The reduction in state funds will be equal to the amount of the weight-loss tax credit, minus the SSI or SSDI costs, multiplied by the states portion of the FMAP rate (43.3 percent for FY 2015). Other offsets would apply to other state agencies and the federal government (SSI and SSDI).

The Kansas Department for Aging and Disability Services indicates the bill would have no direct fiscal effect on its operations. The agency indicates that the employment of individuals with intellectual or developmental disabilities would increase their income and therefore increase their client obligation, which would decrease the state's portion of the waiver costs. However, a precise estimate of the amount of additional client obligations or reduction of the state's waiver costs for each individual that is hired as a result of this tax incentive cannot be made. The agency indicates that any savings as a result of this tax credit program would be reinvested in the program for individuals currently waiting for services. Any fiscal effect associated with HB 2762 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Department of Revenue
Brad Ridley, Aging & Disability Services
Aaron Dunkel, Health & Environment