

Nick Jordan, Secretary

Sam Brownback, Governor

March 4, 2015

Meeting of the House Tax Committee

Testimony for HB 2307

by Richard Carlson, Legislative Liaison for the Kansas Department of Revenue

Good afternoon Chairman KleeB and members of the committee.

Thank you for the opportunity to present testimony in favor of HB 2307.

As you tackle the difficult tasks before you during the 2015 session and working with the expenditures and income of the state, please take the time to reflect on the long term goals of the state. Growing the economy, creating private sector jobs, increasing personal incomes, low unemployment rates, maintaining long term prosperity for the people of Kansas and creating stability and certainty for our business community, all of these long term goals should be reflected in those immediate decisions to balance the budget. Remember, we spent decades of spending more and raising taxes, the result was fewer private sector jobs and slower economic growth. Our neighboring states have grown faster and surpassed us. That is turning around, the Kansas metropolitan area outgrew the Kansas City Missouri metropolitan area every single quarter of 2014 and the low 4.2 percent unemployment helps drive up average wages in a competitive environment.

Yes, we are not without our challenges; however, we can work through them. Remember our citizens have jobs and are providing for their families and they have \$730 million more of their own money to save, spend or invest. Working Kansas families creating their own American dream.

We have chosen the path of lower taxes on productivity (income taxes) and a smaller, more efficient government, relying more on consumption taxes and less on productivity taxes. The Governors tax plan continues on the march to zero, but it realizes the path is not always straight, and may need adjustments, just as we have done in the past few years.

HB 2307 is the part of the Governors tax plan I tend to refer to as the tax policy portion, although it also contains one half of the of the total revenue enhancements. The bill increases revenues \$103.2 million in FY 2016 and \$108.5 million in FY 2017.

The first part of HB 2307 refers to the amnesty program for delinquent taxes due in individual, corporate, privilege, state sales and use, liquor, mineral and local sales taxes accrued from tax periods ending on or before December 31, 2013. The Department of Revenue could eliminate penalties and interest if taxes are paid between September 1, 2015 and October 15, 2015 and additional revenues of \$30 million are budgeted for FY 2016.

The income tax rates were reduced on January 1, 2015 and currently are 2.7 percent and 4.6 percent. The lower income rate is proposed to decrease from 2.7 percent to 2.66 percent on January 1, 2016, with no further rate reductions in statute.

Current income tax rate set in statute are:	2015	2016	2017	2018
	2.7/4.6%	2.4/4.6%	2.3/4.6%	2.3/3.9%
Proposed:	2.7/4.6%	2.66/4.6%	2.66/4.6%	2.66/4.6%

Any further income tax reductions would come about through the establishment, in statute, of a "Tax Reduction Fund".

The bill establishes in statute both a "Budget Stabilization Fund (BSF)" and "Tax Reduction Fund (TRF)". Both funds ending balances will count towards the SGF ending balances and the BSF will replace the 7.5 percent ending balance requirement in statute.

For fiscal years 2016 and 2017, there are required deposits to be made to each fund and beginning in FY 2018, based on revenues from FY 2017, deposits to these accounts will be made from increasing revenues over the previous year.

Commencing with FY 2017, all selected actual SGF receipts over 102 percent of the previous fiscal year and less than 103 percent shall be transferred to the BSF following a set procedure.

All selected actual SGF receipts over 103 percent shall be deposited in the TRF using the same set procedure.

When the BSF fund balance reaches 5 percent of the total SGF expenditures of the previous year, no additional monies shall be credited to the BSF and all increases in revenues over 102 percent shall be credited to the TRF. There is no limit as to how much money may be transferred to the TRF.

Transfers from either the BSF or the TRF may be made by either the legislature by legislative enactment or by the Governor under a set procedure. A provision is made in the bill to allow the Governor to make a transfer from the BSF when the legislature is not in session using the State Finance Council as delegated by statute.

HB 2307 includes accelerating the itemized income tax deduction haircut of 50.0 % currently set in statute to begin on January 1, 2017 to instead begin on January 1, 2015. This change of date of the haircuts will add additional revenue of \$50.3 million in FY 2016 and \$21.8 million in FY 2017.

The following is a summary of the additional revenues HB 2307 will provide:

Tax Policy with 103 percent cap.	\$22.9 million in FY 2016	\$86.7 million in FY 2017
Tax Amnesty	\$30 million in FY 2016	
Accelerated Income Tax Deductions	\$50.3 million in FY 2016	\$21.8 million in FY 2017
Total:	\$103.2 million in FY 2016	\$108.5 million in FY 2017

Attached is the Legislative Research State General Fund Profile for your review.

The establishment of the BSF and the TRF funds moves the tax policy to a more sustainable long term policy as economic conditions will drive further reductions in income tax rates. The Governor proposes no changes to the small business stimulus package. From the one person barber shop to the corporate employee, each are investing in their dreams and growing the economy. Overall the tax policy of Kansas is working for Kansas families, more jobs and higher average incomes for workers. This is a tax policy for all working Kansans.

Thank you for the opportunity to testify in favor of HB 2307 and I am glad to answer questions at the appropriate time.

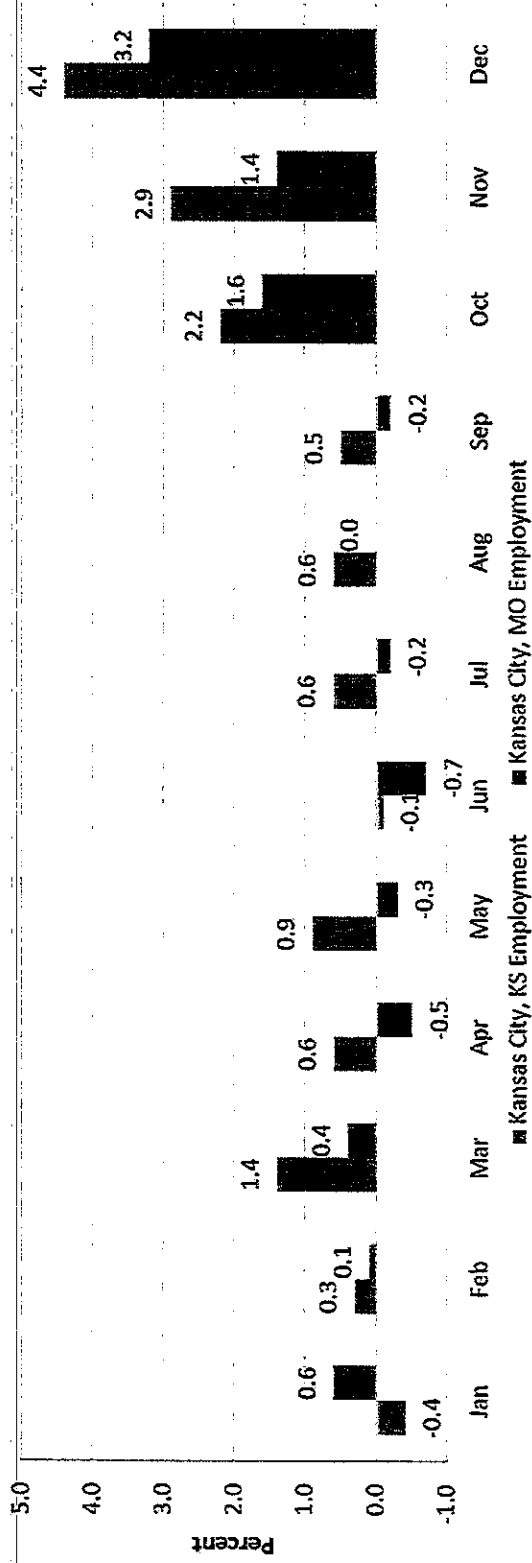
Rec'd 2-9-15

Includes Governor's Revenue and Expenditure Recommendations
Includes Governor's Budget Stabilization and Tax Reduction Funds

STATE GENERAL FUND PROFILE
FY 2013-FY 2020
(Dollars in Millions)

	Actual FY 2013	Actual FY 2014	Estimated FY 2015	Estimated FY 2016	Estimated FY 2017
Beginning Balance	\$ 502.9	\$ 709.3	\$ 379.8	\$ 69.9	\$ 83.9
Consensus Revenue Estimate (April 17, 2014)	6,341.1	5,653.2	5,768.7	5,788.5	5,789.9
Highway fund transfer	-	-	158.5	132.3	132.8
Governor's Income Tax Plan	-	-	-	103.2	108.5
Governor's Cigarette, Tobacco, & Liquor Tax Plan	-	-	-	107.9	104.1
Governor's Revenue Adjustments	-	-	112.6	267.6	364.1
Total Available Revenue	\$ 6,844.0	\$ 6,362.5	\$ 6,419.6	\$ 6,469.4	\$ 6,583.3
Expenditures					
Estimated State General Fund Expenditures Shifted from FY 2014	\$ 6,134.8	\$ 5,982.7	\$ 6,300.9	\$ 6,408.4	\$ 6,419.4
Governor's Expenditure Allotments	-	-	24.1	-	-
Human Services Caseloads	-	-	(62.7)	-	-
School Finance General State Aid Adjustments	-	-	46.2	-	-
KPERS State and School	-	-	53.1	-	-
Governor's Expenditure Adjustments	-	-	5.6	-	-
Total Adjusted Expenditures	6,134.8	5,982.7	(17.5)	-	-
Ending Balance	\$ 709.3	\$ 379.9	\$ 69.9	\$ 6,408.4	\$ 6,419.4
Governor's Budget Stabilization Fund	-	-	-	61.0	163.9
Governor's Tax Reduction Fund	-	-	-	22.9	58.0
Adjusted Ending Balance	\$ 709.3	\$ 379.8	\$ 69.9	\$ 83.9	\$ 250.6
Ending Balance as a Percentage of Expenditures	11.6%	6.3%	1.1%	1.0%	2.6%
Receipts in Excess of Approved Expenditures	\$ 206.3	\$ (329.5)	\$ (309.9)	\$ (8.9)	\$ 80.0

Figure 1
Kansas City MSA Working Residents Growth
Local Area Unemployment Statistics*
2014



* Not Seasonally Adjusted
 Source: U.S. Bureau of Labor Statistics