

February 16, 2016

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

Dear Representative KleeB:

SUBJECT: Fiscal Note for HB 2626 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2626 is respectfully submitted to your committee.

HB 2626 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 expenses. 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.

The tax credit would be calculated by the Department of Revenue in cooperation with the community service providers providing services to the new eligible employee or employees. 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 underlying information that is used to determine the tax weight-loss for each certified tax weight-loss business would be confidential and not subject to disclosure under the Kansas Open Records Act. The Department of Revenue would be required to produce an annual report based on information received from each certified tax weight-loss business. The certified tax weight-loss business would be allowed to use a third-party community service provider to provide support and services to eligible employees to ensure that the eligible employees are able to maintain their employment.

The bill would allow a business that employs eligible employees to either receive the income tax credit or receive a tax benefit equal to \$5 for each hour worked by an eligible employee. The \$5 tax benefit would be deducted from the employer's Kansas payroll withholding taxes or reimbursement from Kansas property taxes, retail sales tax, or compensating use tax paid by the employer in the preceding tax year. Reimbursements would be

paid from the Kansas Tax Weight Loss Fund, which would be funded by appropriations equal to 75.0 percent of the total tax weight loss from prior years.

The bill would provide a sales tax exemption for certified tax weight-loss businesses for the sale at retail of tangible personal property that is primarily produced, packaged, or assembled by the certified businesses. The Department of Revenue would have the authority to write rules and regulations to implement the bill.

The Department of Revenue indicates HB 2626 would reduce State General Fund revenues; however, information is not available to 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 in order to make an estimate of the fiscal effect. Additionally, the Department of Revenue does not have information on the amount of certified tax weight-loss businesses that would qualify for the retail sales tax exemption.

The Department of Revenue indicates that the bill would require \$162,109 from the State General Fund in FY 2017 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 for Aging and Disability Services, the Kansas Department of Health and Environment and the Department for Children and Families indicate the bill has the potential to reduce expenditures. The bill also has the possibility of reducing expenditures for certain programs and increasing expenditures for other programs. For example, the bill could reduce expenditures for the Home and Community Based Waiver program and increase expenditures for Vocational Rehabilitation Services. Any fiscal effect associated with HB 2626 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Brad Ridley, Aging & Disability Services
Aaron Dunkel, Health & Environment
Jackie Aubert, Children & Families