

February 23, 2016

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

Dear Representative Kleebl:

SUBJECT: Fiscal Note for HB 2670 by Representative Whipple, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2670 is respectfully submitted to your committee.

Under current law, the Kansas Earned Income Tax Credit (EITC) is calculated at 17.0 percent of the federal EITC claimed against the taxpayer's federal income tax liability for tax year 2013 and each tax year thereafter. HB 2670 would increase the amount of the Kansas EITC to 18.0 percent for tax year 2016 and each tax year thereafter.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	(\$5,500,000)	(\$5,500,000)
Expenditure	--	--	\$11,700	\$11,700
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2670 would decrease State General Fund revenues by \$5.5 million in FY 2017. The decrease in revenues and how the November 6, 2015 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2015)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	\$2,485,000	(\$ 5,500)	\$2,479,500
Corporate	420,000	--	420,000
Financial Institutions	47,000	--	47,000
Excise Taxes:			
Retail Sales	2,380,000	--	2,380,000
Compensating Use	395,000	--	395,000
Cigarette	135,000	--	135,000
Severance	58,200	--	58,200
All Other Excise Taxes	116,400	--	116,400
Other Taxes	<u>173,300</u>	<u>--</u>	<u>173,300</u>
Total Taxes	\$6,209,900	(\$ 5,500)	\$6,204,400
Other Revenues:			
Interest	\$ 9,200	\$ --	\$ 9,200
Transfers	17,600	--	17,600
Agency Earnings	<u>49,000</u>	<u>--</u>	<u>49,000</u>
Total Other Revenues	\$ 75,800	\$ --	\$ 75,800
Total Receipts	\$6,285,700	(\$ 5,500)	\$6,280,200

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

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State General Fund	(\$5,700,000)	(\$5,800,000)	(\$6,000,000)	(\$6,100,000)

To formulate these estimates, the Department of Revenue reviewed data on the Kansas EITC. The Department indicates that Kansas taxpayers claimed approximately \$89.4 million in tax credits for tax year 2014 under the current rate of 17.0 percent of the amount of the federal tax credit. Increasing the amount of the Kansas EITC to 18.0 percent for tax year 2016 would increase the amount of credits claimed by \$5.5 million in FY 2017.

The Department of Revenue indicates that the bill would require \$11,700 from the State General Fund in FY 2017 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.

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The Department for Children and Families indicates that it relies on the Kansas EITC to meet the federal Temporary Assistance for Needy Families (TANF) program maintenance of effort requirement. The TANF maintenance of effort is a fixed annual state expenditure requirement to qualify for the federal TANF Block Grant. Each state's maintenance of effort requirement is unique and based on a percentage state expenditures immediately prior to the TANF Block Grant. For Kansas, the annual TANF maintenance of effort is \$65,866,230 in FY 2017. The bill would increase the TANF maintenance of effort by approximately \$2.8 million in FY 2017. Because the TANF maintenance of effort requirement is projected to be met almost exactly in FY 2017 under the existing 17.0 percent rate, the bill would result in the agency exceeding the requirement by the same \$2.8 million. However, the bill would have no direct effect on the operations of the Kansas Department for Children and Families. Any fiscal effect associated with HB 2670 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Jackie Aubert, Children & Families