

March 9, 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 2672 by Representatives Helgerson and Trimmer

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2672 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the federal adjusted gross income. HB 2672 would require non-wage business income to be included as income for Kansas income tax purposes beginning in tax year 2017. The bill would also allow all non-wage business losses to be claimed for Kansas income tax purposes. The bill would prohibit any penalties or interest from the underpayment of taxes from calculating non-wage business income in tax year 2017, as long as the taxes are paid by April 15, 2018.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	\$61,100,000	\$61,100,000
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2672 would increase State General Fund revenues by \$61.1 million in FY 2017. The increase 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	\$ 61,100	\$2,546,100
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	\$ 61,100	\$6,271,000
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	\$ 61,100	\$6,346,800

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	\$205,000,000	\$209,100,000	\$213,000,000	\$217,600,000

To formulate these estimates, the Department of Revenue reviewed data from tax year 2014. The bill is estimated to increase individual income tax liability by \$203.8 million in tax year 2017 and \$207.9 million in tax year 2018 based on taxing all non-wage business income and allowing business losses to be claimed by the taxpayer beginning in tax year 2017. The bill is estimated to increase State General Fund revenues by \$61.1 million in FY 2017, which is 30.0 percent of tax year 2017 tax liability. The State General Fund is estimated to increase \$205.0 million FY 2018 based on 70.0 percent of tax year 2017 tax liability (\$142.7 million) and 30.0 percent of tax year 2018 tax liability (\$62.3 million).

The Department indicates that the bill would require \$85,300 from the State General Fund in FY 2018 to implement the bill and to modify the automated tax system. The required

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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 Department of Administration indicates that adjusting state income tax collections has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are decreased, the amount available for possible debt setoffs is also reduced. However, the Department is unable to make a precise estimate of the amount of debts setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2672 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
Colleen Becker, Department of Administration