

April 2, 2015

The Honorable Les Donovan, Sr., Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 272 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 272 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. SB 272 would provide a subtraction modification from federal adjusted gross income for the amount of net gain from the sale of Christmas trees grown in Kansas and held by the taxpayer for six years or more. The bill would allow this subtraction modification to be applied retroactively beginning in tax year 2014.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$40,000)	(\$40,000)
Expenditure	--	--	\$63,180	\$63,180
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 272 would decrease State General Fund revenues by \$40,000 in FY 2016. The decrease in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	(40)	2,299,960
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	--	2,270,000
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	(\$ 40)	\$5,970,560
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	(\$ 40)	\$5,811,360

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

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$20,000)	(\$20,000)	(\$20,000)	(\$20,000)

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service (IRS) on the net gains from the sale of Christmas trees by Kansas taxpayers. Data from the IRS indicates that net capital gains from the sale of Christmas trees by Kansas taxpayers are approximately \$400,000 per tax year. Assuming that an average tax rate of 4.6 percent would be used, the Department estimates that the subtraction modification would reduce income tax receipts to the State General Fund by approximately \$20,000 each tax year. Because the bill is retroactive to tax year 2014, the Department assumes that qualifying individuals would amend tax year 2014 returns and apply for refunds in FY 2016. Therefore, the reduction of individual income tax receipts would be \$40,000 in FY 2016, with \$20,000 attributed to tax year 2014 refunds and \$20,000 attributed to new subtraction modifications claimed in tax year 2015.

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The Department of Revenue indicates that it would require \$63,180 from the State General Fund in FY 2016 to implement the bill, including the costs associated with creating 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. Any fiscal effect associated with SB 272 is not reflected in *The FY 2016 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