

May 5, 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 296 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 296 is respectfully submitted to your committee.

Under current law, individual income tax rates are set at 2.70 percent for income under \$15,000 (\$30,000 for married filing jointly) and at 4.6 percent for income \$15,000 and over (\$30,000 for married filing jointly) in tax year 2015 with additional individual income tax rate reductions in future tax years. SB 296 would continue the tax year 2015 individual income tax rates in tax year 2016 and for each future tax year. For calculating state income taxes in tax year 2016 and each future tax year, the bill would allow a taxpayer to claim 60.0 percent of the total amount of allowed itemized deductions, which is the same amount allowed in tax year 2015. The bill moves up the automatic income tax rate reduction procedure from tax year 2019 to tax year 2017 that reduces future income tax rates based on the amount of actual State General Fund tax receipts collected in the previous fiscal year.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2015 SGF | FY 2015 All Funds | FY 2016 SGF | FY 2016 All Funds |
| Revenue | -- | -- | \$19,900,000 | \$19,900,000 |
| Expenditure | -- | -- | -- | -- |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that SB 296 would increase State General Fund revenues by \$19.9 million in FY 2016. The increase in revenues and how the April 20, 2015 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 (April 20, 2015) | Change in Revenue FY 2016 | Proposed Adjusted CRE FY 2016 |
|------------------------|--|---------------------------|-------------------------------|
| Motor Carrier | \$ 11,000 | \$ -- | \$ 11,000 |
| Income Taxes: | | | |
| Individual | 2,300,000 | 19,900 | 2,319,900 |
| Corporate | 440,000 | -- | 440,000 |
| Financial Institutions | 44,000 | -- | 44,000 |
| Excise Taxes: | | | |
| Retail Sales | 2,240,000 | -- | 2,240,000 |
| Compensating Use | 370,000 | -- | 370,000 |
| Cigarette | 88,000 | -- | 88,000 |
| Severance | 73,800 | -- | 73,800 |
| All Other Excise Taxes | 113,700 | -- | 113,700 |
| Other Taxes | <u>190,500</u> | <u>--</u> | <u>190,500</u> |
| Total Taxes | \$5,871,000 | \$ 19,900 | \$5,890,900 |
| Other Revenues: | | | |
| Interest | \$ 17,800 | \$ -- | \$ 17,500 |
| Transfers | (232,680) | -- | (232,680) |
| Agency Earnings | <u>57,100</u> | <u>--</u> | <u>57,100</u> |
| Total Other Revenues | (\$ 157,780) | \$ -- | (\$ 157,780) |
| Total Receipts | \$5,713,220 | \$ 19,900 | \$5,733,120 |

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 | \$69,700,000 | \$195,900,000 | \$479,000,000 | \$503,000,000 |

To formulate these estimates, the Department of Revenue reviewed data on individual income tax rates, income tax deductions, and collections. The Department indicates that the bill would increase individual income tax receipts by \$19.9 million in FY 2016, including \$26.4 million increase attributable to the change in individual income tax rates and \$6.5 million reduction attributable to freezing the amount of allowed itemized deductions. The Department indicates that the administrative cost to implement the bill and to modify the automated tax system would be negligible and could be absorbed within existing resources.

The Department of Administration indicates that adjusting state income tax rates has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program.

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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 setoff is also reduced. However, the Department is unable to make a precise estimate of the amount of debt setoff that will no longer be intercepted as a result of the bill. Any fiscal effect associated with SB 296 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, KDOR
Colleen Becker, DofA