

March 21, 2016

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 500 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 500 is respectfully submitted to your committee.

SB 500 would eliminate the community services contribution tax credit beginning in tax year 2017.

SB 500 correlates to the Commerce and Economic Development Recommendation #4 from the *Kansas Statewide Efficiency Review* by Alvarez & Marsal (A&M). In this report, A&M estimates that eliminating the community services contribution tax credit would generate additional tax revenues of \$2.0 million in FY 2017 and \$4.0 million in FY 2018 and in each future fiscal year. The A&M report indicated that Kansas would realize a first year impact after January 1, 2017, based upon implementation at the beginning of a state tax year. The A&M report based recommended savings on information from tax year 2012 that stated that 899 taxpayers claimed \$4,006,556 in tax credits. The A&M report indicated that although the program has provided a benefit to state nonprofits, many of the program efforts funded with the annual allocation could be funded with other potential federal grant funds and private foundations.

The Department of Revenue estimates the bill would increase State General Fund revenues by \$3.3 million in FY 2018 and in each future fiscal year. The bill would not affect State General Fund revenues in FY 2017, because the credits would continue to be issued for tax year 2016 and claimed in FY 2017. To formulate these estimates, the Department of Revenue reviewed data from individual income tax returns for the community services contribution tax credit. The Department of Revenue indicates that the amount of tax credits approved each fiscal year is \$4,130,000, which is the maximum amount allowed by statute. However, depending on when taxpayers file their returns, the credit claimed during a tax year can exceed the \$4,130,000

by as much as \$600,000. However, the most recent information available indicates that only \$3.3 million in community service contribution tax credits were claimed by 900 taxpayers in tax year 2014. Assuming similar results in future years, the bill is estimated to increase State General Fund revenues by \$3.3 million in FY 2018 and in each future fiscal year.

The Department of Revenue indicates that the bill would require \$36,504 from the State General Fund in FY 2018 to implement the bill and to modify and test 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 Department of Commerce is currently responsible for the administration of community services contribution tax credit. The Department of Commerce indicates that the costs savings from no longer being required to administer these tax credits would be negligible. Any fiscal effect associated with SB 500 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
Bob North, Commerce