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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

April 27, 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 506 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 506 is respectfully submitted to your committee.

SB 506 would provide a 10.0 percent "haircut" to the High Performance Incentive Program (HPIP) tax credit for tax years 2016 and 2017. For HPIP tax credits that have been certified prior to June 1, 2016, taxpayers would be able to claim 90.0 percent of the allowable tax credit with the remaining 10.0 percent carried forward to tax year 2018. For HPIP tax credits that are certified after June 1, 2016, the taxpayer would be able to claim 90.0 percent of the allowable tax credit, but the remaining 10.0 percent would not be carried forward. The bill would eliminate the requirement that a qualified taxpayer must obtain approval from the Secretary of Commerce for participation in Kansas Industrial Training (KIT), Kansas Industrial Retraining (KIR), or the State of Kansas Investments in Lifelong Learning (SKILL) Program in order to claim the HPIP tax credit.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	$3,750,000	$3,750,000
Expenditure	--	--	$160,609	$160,609
FTE Pos.	--	--	--	2.00

The Department of Revenue estimates that SB 506 would increase State General Fund revenues by $3,750,000 in both FY 2017 and FY 2018. The increase in revenues and how the April 20, 2016 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 (April 20, 2016)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	$2,377,000	$ --	$2,377,000
Corporate	396,000	3,750	399,750
Financial Institutions	40,000	--	40,000
Excise Taxes:			
Retail Sales	2,350,000	--	2,350,000
Compensating Use	405,000	--	405,000
Cigarette	133,000	--	133,000
Severance	33,900	--	33,900
All Other Excise Taxes	118,400	--	118,400
Other Taxes	185,900	--	185,900
Total Taxes	$6,039,200	$ 3,750	$6,042,950
Other Revenues:			
Interest	$ 13,400	$ --	$ 13,400
Transfers	56,600	--	56,600
Agency Earnings	41,800	--	49,000
Total Other Revenues	$ 111,800	$ --	$ 118,800
Total Receipts	$6,151,000	$ 3,750	$6,154,750

To formulate these estimates, the Department of Revenue reviewed data on the HPIP tax credit. The Department of Revenue indicates that 125 taxpayers claimed approximately $37.5 million in HPIP tax credits in tax year 2014. Assuming similar results in future years, the bill is estimated to increase State General Fund revenues by $3,750,000 in both FY 2017 and FY 2018.

The Department of Revenue indicates the bill would require $160,609 from the State General Fund in FY 2017 to implement the bill and to modify and test the automated tax system. The bill would require 2.00 new FTE positions to answer additional questions from taxpayers and to review tax credit schedules. 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 bill correlates to the Commerce and Economic Development Recommendation #3 from the *Kansas Statewide Efficiency Review* by Alvarez & Marsal (A&M). In this report, A&M estimates that providing a 10.0 percent "haircut" to the HPIP tax credit for tax year 2016 and tax year 2017 would generate $5.0 million in both FY 2017 and FY 2018; however, companies would be able to claim the carried forward on previously earned tax credits beginning in tax year 2018 or FY 2019. The A&M report based the cost savings on the 10.0 percent “haircut” that occurred to most tax credits, including the HPIP tax credit, for tax year 2009 and tax year 2010. The A&M report indicated the statutory requirement that companies seeking HPIP benefits must also participate in a Department of Commerce sponsored training program leads to relatively large number of companies that utilize the training programs, in order to get the HPIP tax credit, but do not actually need the additional training. Most training project awards are relatively small (e.g., under $20,000) and potential changes to disconnect the training requirement for HPIP should be further reviewed to determine any fiscal and operational efficiencies.

The Department of Commerce is currently responsible for the administration of HPIP tax credit, including reviewing and approving HPIP applications and providing training programs to qualified companies. The Department indicates that decoupling the training requirement from the HPIP tax credits would allow the Department to efficiently deploy its limited training resources to provide incentives to companies with the greatest needs and not solely to companies that want to qualify for the tax credit. Any fiscal effect associated with SB 506 is not reflected in *The FY 2017 Governor’s Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Bob North, Commerce