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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

May 11, 2017

CORRECTED

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Corrected Fiscal Note for HB 2237 by House Committee on Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2237 is respectfully submitted to your committee.

HB 2237 is a comprehensive tax bill that deals with income taxes, retail sales and compensating use taxes, and motor fuel taxes. Under current law, individual income tax rates are set at 2.6 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 2018. The bill would create a three bracket income tax beginning in tax year 2018 and in all future tax years. The individual income tax rates would be set at 2.6 percent for income under $15,000 ($30,000 for married filing jointly), 4.6 percent for income between $15,000 and $40,000, (between $30,000 and $80,000 for married filing jointly), and 6.25 percent for income $40,000 and over ($80,000 for married filing jointly) in tax year 2018. The bill would eliminate the automatic income tax rate reduction procedure that has the potential to reduce individual income tax rates beginning in tax year 2021.

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. The bill would require non-wage business income to be included as income for Kansas income tax purposes beginning in tax year 2018; however, all non-wage business losses could not be claimed for Kansas income tax purposes. The bill would allow individual income taxpayers to claim the following tax credits beginning in tax year 2018: Agritourism, Temporary Assistance to Families, Small Employer Health Insurance Contribution, Assistive Technology Contribution, Kansas Venture Capital Investment, Research and Development, Child Day Care, Alternative Fuel, Swine Facility, Abandoned Oil or Gas Well, Telecommunications, Single City Port Authority, and Environmental Compliance. Since tax year 2012, these tax credits were not available to be claimed by individual income taxpayers.

The bill would increase most motor fuel fees and taxes beginning on July 1, 2017. The bill would increase the special LP gas permit fee for each weight and mile category. The 24-

hour motor fuel permit would be increased from $13 to $18.50, and the 72-hour motor fuel permit would increase from $25 to $35.50. The bill would increase the following motor fuel tax rates:

Motor Fuel Type	Current Tax Rate	New Tax Rate
Motor-vehicle fuels (not including E85)	$0.24	$0.35
E85 fuel	$0.17	$0.28
Special fuels (diesel)	$0.26	$0.37
LP-gas	$0.23	$0.34
Compressed natural gas	$0.24	$0.35
Liquefied natural gas	$0.26	$0.37

The bill would change the distribution of motor fuel tax revenue as follows:

Time Period of Tax Change	State Highway Fund	Special City & County Highway Fund
Current Law	66.37 %	33.63 %
July 1, 2017 & Prior to January 1, 2018	76.84 %	23.16 %
After January 1, 2018	76.78 %	23.22 %

The bill would reduce the state retail sales tax and compensating use tax rate for food and food ingredients from 6.5 percent to 5.0 percent beginning on July 1, 2017. Food and food ingredients would not include alcoholic beverages, tobacco, candy, dietary supplements, soft drinks, or food sold through vending machines. Food and food ingredients would specifically include bottled water. In the original fiscal note issued, an incorrect definition of food and food ingredients was used. The 5.0 percent retail sales tax and compensating use tax on food and food ingredients would be distributed the same as the current 6.5 percent distribution: 83.846 percent to the State General Fund and 16.154 percent to the State Highway Fund.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	$104,400,000	$276,700,000	$554,500,000	$742,500,000
Expenditure	$620,625	$620,625	$390,408	$390,408
FTE Pos.	--	3.00	--	3.00

The Department of Revenue estimates that HB 2237 would increase state revenues by $276.7 million in FY 2018 and by $742.5 million in FY 2019. Of those totals, the State General Fund is estimated to increase by $104.4 million in FY 2018 and by $554.5 million in FY 2019, while the State Highway Fund is estimated to increase by $172.3 million in FY 2018 and by $188.0 million in FY 2019. This bill also is estimated to decrease local sales tax revenues beginning in FY 2018; however, an estimate of lower local sales tax revenues was not calculated by the Department of Revenue.

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

	FY 2020	FY 2021	FY 2022
State General Fund	$559,700,000	$564,900,000	$570,100,000
State Highway Fund	187,900,000	187,900,000	187,900,000
	$747,600,000	$752,800,000	$758,000,000

The Department of Revenue indicates that State General Fund estimates for FY 2018 and FY 2019 are based on the November 2016 Consensus Revenue Estimate. State General Fund revenues in the out years assume a 1.0 percent annual growth rate. All changes in tax rates, tax credits, fees, and distribution of revenues are prospective and not retroactive. The proposed motor fuel tax rate increases and the change in the distribution of those revenues would provide additional revenues to the State Highway Fund and would have no fiscal effect on the Special City and County Highway Fund.

The Department indicates that the bill would require $620,625 from the State General Fund in FY 2018 and $390,408 in FY 2019 to implement the bill and make changes to the automated tax system. The bill would require 3.00 new FTE positions to update forms and instructions, and process and track additional income tax credits. 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation indicates that the bill would provide a net increase in state revenue to the State Highway Fund as noted above. The additional revenues would fund additional expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net decrease to local sales tax collections that are used in part to finance local governments. Any fiscal effect associated with HB 2237 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Ben Cleeves, Transportation
Chris Tymeson, Wildlife, Parks & Tourism
Brock Ingmire, League of Municipalities
Melissa Wangemann, Association of Counties