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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 13, 2017

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2368 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2368 is respectfully submitted to your committee.

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. HB 2368 would allow a taxpayer, which has an ownership interest in a business that currently pays no income taxes under the non-wage business exemption, the ability to deduct the amount of actual wages paid by the business to fill a newly created job. The deduction would be limited to 15.0 percent in the tax year that the employee was hired, 10.0 percent in the year after the employee is hired, and 5.0 percent in the second year after the employee is hired. No deduction would be allowed in the third year after the employee is hired. The bill defines a "newly created job" as a job in a new or expanded Kansas business, not including jobs of recalled workers, existing jobs that are vacant, or other jobs that formerly existed in the business.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	($358,800)	($358,800)	($598,000)	($598,000)
Expenditure	$125,814	$125,814	$65,068	$65,068
FTE Pos.	--	1.00	--	1.00

The Department of Revenue estimates that HB 2368 would decrease State General Fund revenues by $358,800 in FY 2018 and by $598,000 in FY 2019. To formulate these estimates, the Department reviewed data from the U.S Census Bureau on employment and median salary levels in Kansas. The Department assumes that 1,000 newly created jobs would qualify for this exemption each year under the provision of the bill at a median salary of $52,000 per year. The bill would have the following fiscal effect in FY 2018 and FY 2019:

<u>FY 2018</u>
1,000 employees x $52,000 = $52,000,000 in wages
15.0 percent x $52.0 million = $7.8 million
$7.8 million x tax rate of 4.6 percent = $358,800 reduction in State General Fund revenue

<u>FY 2019</u>
2,000 employees x $52,000 = $52,000,000 in wages
10.0 percent x $52.0 million = $5.2 million
15.0 percent x $52.0 million = $7.8 million
$13.0 million x tax rate of 4.6 percent = $598,000 reduction in State General Fund revenue

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. The bill is retroactive and the fiscal effect is based on allowing this subtraction modification beginning on January 1, 2017. The estimate for FY 2018 includes 100.0 percent of tax year 2017 tax liability and the estimate for FY 2019 includes 100.0 percent of tax year 2018 tax liability.

The Department of Revenue indicates that the bill would require $125,814 from the State General Fund in FY 2018 to implement the bill and to modify the automated tax system. The bill would require 1.00 new FTE position to manage this new tax benefit program. The Department estimates that ongoing expenses for salary and wages for the 1.00 FTE position and overhead expenses would total $65,068 from the State General Fund in FY 2019. 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 Department of Administration indicates that adjusting state income tax collections has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. 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 increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to provide an estimate of the amount of debt setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2368 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Lynn Robinson, Department of Revenue