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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

August 3, 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 2432 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2432 is respectfully submitted to your committee.

HB 2432 would create a three bracket income tax beginning in tax year 2017 and in all future tax years. The individual income tax rates would be set at 3.5 percent for income under $15,000 ($30,000 for married filing jointly), 6.25 percent for income between $15,000 and $30,000, (between $30,000 and $60,000 for married filing jointly), and 6.45 percent for income $30,000 and over ($60,000 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. The bill would decrease the standard deduction beginning in tax year 2017 from $7,500 to $6,000 for married filing jointly filers and from $5,500 to $4,500 for head of household filers. The standard deduction for single filers would remain at $3,000. The bill would allow taxpayers to claim all itemized deductions claimed on federal income tax returns on state income tax returns beginning in tax year 2017, except state and local taxes paid.

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 2017. The bill would also allow all non-wage business losses to be claimed for Kansas income tax purposes; however, losses from previous tax years could not be claimed. Income from the sale of qualified livestock and Christmas trees would be included as taxable income. The bill would prohibit any penalties or interest from the tax rate changes and the underpayment of taxes from calculating non-wage business income in tax year 2017, as long as the taxes are paid by April 17, 2018.

The bill would restore the following tax credits beginning in tax year 2017: Child and Dependent Care, National Guard and Reserve Employer, Law Enforcement Training Center, Agritourism, Temporary Assistance to Families, Small Employer Health Insurance Contribution, Assistive Technology Contribution, Kansas Venture Capital Investment, Research and Development, Child Day Care Assistance, 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 allow renters to claim the Homestead Property Tax Refund beginning in tax year 2017. Individual taxpayers would also be able to claim the expense deduction beginning in tax year 2017.

The bill would create the Food Sales Tax Refund Act and repeal the Food Sales Tax Credit beginning in tax year 2017. The bill provides a set refund amount for sales tax paid on food for taxpayers who are Kansas residents the entire year and whose household income is $36,700 or less. In order to qualify for the food sales tax refund, taxpayers would be required to be 55 years of age or older; totally and permanently disabled or blind; or have at least one dependent under the age of 18 living with them the entire year. To calculate the amount of the food sales tax refund, taxpayers with qualifying income of $18,350 or less would multiply the number of exemptions by $94, and taxpayers with qualifying income of $18,351 to $36,700 would multiply the number of exemptions by $47.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	$1,000,000,000	$1,000,000,000	$772,000,000	$772,000,000
Expenditure	$320,514	$320,514	$162,067	$162,067
FTE Pos.	--	3.00	--	3.00

The Department of Revenue estimates that HB 2432 would increase State General Fund revenues by $1.0 billion in FY 2018 and by $772.0 million in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2020	FY 2021	FY 2022
State General Fund	$781,600,000	$791,400,000	$801,200,000

The Department of Revenue indicates that State General Fund estimates for FY 2018 and FY 2019 are based on the Consensus Revenue Estimate. State General Fund revenues in the out years assume a 1.0 percent annual growth rate. The bill is retroactive and the fiscal effect is based on taxing non-wage business income, income tax rate and standard deduction changes, and the restoration of tax credits beginning on January 1, 2017. The income tax estimate for FY 2018 includes 100.0 percent of tax year 2017 tax liability and 30.0 percent of tax year 2018 tax liability. The income tax estimate for FY 2019 includes 70.0 percent of tax year 2018 tax liability and 30.0 percent of tax year 2019 tax liability.

The Department indicates that the bill would require $320,514 from the State General Fund in FY 2018 and $162,067 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 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 decreased, the amount available for possible debt setoffs is also reduced. However, the Department is unable to make an estimate of the amount of debt setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2432 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget