Landon State Office Building
900 SW Jackson Street, Room 504
Topeka, KS 66612

Kansas
Division of the Budget

Phone: (785) 296-2436
Fax: (785) 296-0231
shawn.sullivan@ks.gov

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 2434 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2434 is respectfully submitted to your committee.

HB 2434 would set the individual income tax rate at 4.4 percent for all taxpayers beginning in tax year 2018 and in all future tax years. 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. All individual income tax receipts would be deposited in the School Finance Fund beginning on January 1, 2018.

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 remove all current modifications to income as of January 1, 2018. The bill would eliminate all personal exemptions, itemized deductions, and standard deductions beginning in tax year 2018. The bill would redefine Kansas adjusted gross income as federal adjusted gross income minus interest or dividend income on obligations or securities of any commission or instrumentality of the United States; federal civil service retirement benefits; railroad retirement benefits; and federal tentative jobs tax credit disallowance.

The bill would no longer allow individual income taxpayers to claim the following tax credits beginning in tax year 2018: High Performance Incentive Program, Individual Development Account, Angel Investor, Center for Entrepreneurship, Business and Job Development, Community Services Contribution, Adoption, Earned Income, Historic Preservation, Film Production, and Rural Opportunity Zones. The bill would also end the Promoting Employment Across Kansas Program and Food Sales Tax Credit Program.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	$450,100,000	$450,100,000	$1,502,000,000	$1,502,000,000
Expenditure	$197,022	$197,022	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2434 would increase State General Fund revenues by $450.1 million in FY 2018 and by $1.5 billion 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	$1,517,000,000	$1,532,000,000	$1,548,000,000

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 income tax estimate for FY 2018 includes 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 $197,022 from the State General Fund in FY 2018 to implement the bill and make changes to 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, 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 2434 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget