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GOVERNOR JEFF COLYER, M.D.
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

February 19, 2018

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2615 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2615 is respectfully submitted to your committee.

Under current law, the non-refundable income tax credit for expenses for household and dependent care services necessary for gainful employment (more commonly referred to as the Child and Dependent Care Tax Credit) is set at 12.5 percent of the credit claimed against the taxpayer's federal income tax liability under Section 21 of the federal Internal Revenue Code in tax year 2018, 18.75 percent in tax year 2019, and 25.0 percent in tax year 2020. HB 2615 would set the tax credit at 25.0 percent in tax year 2018, 37.5 percent in tax year 2019, 50.0 percent in tax year 2020.

| Estimated State Fiscal Effect | | | | |
|---|---|---|---|---|
| | FY 2018 SGF | FY 2018 All Funds | FY 2019 SGF | FY 2019 All Funds |
| Revenue | -- | -- | ($9,200,000) | ($9,200,000) |
| Expenditure | -- | -- | $32,343 | $32,343 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that HB 2615 would decrease State General Fund revenues by $9.2 million in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

| | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|
| State General Fund | ($13,400,000) | ($16,400,000) | ($16,700,000) | ($17,000,000) |

To formulate these estimates, the Department of Revenue reviewed data on the amount of Child and Dependent Care Tax Credits that were claimed by individual income taxpayers in tax year 2012, which was the last tax year that individual income taxpayers could claim this tax credit before it was restored for tax year 2018 by 2017 SB 30. The Department indicates that approximately 68,500 Kansas taxpayers claimed $8.9 million in state Child and Dependent Care Tax Credits in tax year 2012. The Department assumes that approximately $9.2 million in tax credits would be claimed by individual taxpayers in tax year 2018 under current law that allows taxpayers to claim 12.5 percent of the federal credit. Allowing taxpayers to receive 25.0 percent of the federal credit in tax year 2018, would allow taxpayers to claim an additional $9.2 million or a total of $18.4 million in tax credits in tax year 2018 or FY 2019. The Department of Revenue indicates that the State General Fund estimate for FY 2019 is based on the November 2017 Consensus Revenue Estimate. State General Fund revenues in the out years assume a 1.7 percent annual growth rate.

The Department indicates that the bill would require $32,343 from the State General Fund in FY 2019 to implement the bill and to modify 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 Kansas Department for Aging and Disability Services (KDADS) indicates the bill would have no fiscal effect on its operations. However, the bill has the potential to provide benefits to taxpayers who also receive services from KDADS.

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 make an estimate of the amount of debt setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2615 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
Colleen Becker, Department of Administration
Cody Gwaltney, Aging & Disability Services