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

March 12, 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 2657 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2657 is respectfully submitted to your committee.

HB 2657 would allow a taxpayer to claim a new non-refundable income tax credit for 20.0 percent of the increase in total salaries paid to Kansas employees from the previous year beginning in tax year 2018. The amount of the tax credit would be capped at $4,000 per tax year. Any unused tax credits would not be allowed to be carried forward into future tax years. The bill would allow the tax credits to be transferred to another taxpayer that has Kansas tax liability as long as the Director of Taxation at the Department of Revenue is notified of the transfer. The Department of Revenue would have the authority to adopt rules and regulations to implement the bill.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	($68,784,000)	($68,800,000)
Expenditure	--	--	$305,462	$305,462
FTE Pos.	--	--	--	--

HB 2657 is estimated to decrease state revenues by $68.8 million in FY 2019. Of that total, the State General Fund is estimated to decrease by $68,784,000 in FY 2019, while the Insurance Department Service Regulation Fund is estimated to decrease by $16,000 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	($69,984,000)	($71,084,000)	($72,284,000)	($73,584,000)
Service Regulation Fund	(16,000)	(16,000)	(16,000)	(16,000)
	($70,000,000)	($71,100,000)	($72,300,000)	($73,600,000)

To formulate these estimates, the Department of Revenue reviewed data from Kansas business entities that issued an Internal Revenue Service W-2 Form to at least one employee. The Department assumes that wages will grow 2.0 percent each year. Allowing taxpayers to claim a 20.0 percent tax credit that is capped at $4,000 is estimated to reduce State General Fund revenues by $67.2 million from individual income tax, corporation income tax, and financial institutions privilege tax in FY 2019. The Department indicates that State General Fund estimates for FY 2019 are based on the November 2017 Consensus Revenue Estimate. State General Fund revenues in the out years assume the wage growth rate will continue to grow at approximately 2.0 percent.

The Department indicates that the bill would require $305,462 from the State General Fund 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 create forms and instructions, and process and track the income tax credit. 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 Insurance Department indicates that the bill will reduce insurance premiums taxes by $1.6 million per year starting in FY 2019. Because, the Insurance Department is able to retain 1.0 percent of insurance premiums taxes in the Insurance Department Service Regulation Fund, the bill estimated to reduce State General Fund revenue by $1,584,000 and reduce Insurance Department Service Regulation Fund revenue by $16,000. The fiscal effect on insurance premiums tax collections in future fiscal years will remain fairly constant because the number of insurance companies claiming the maximum amount of the tax credit is not expected to fluctuate significantly.

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 2657 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Chief Budget Officer

cc: Glenda Haverkamp, Insurance
Lynn Robinson, Department of Revenue
Colleen Becker, Department of Administration