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March 26, 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 2779 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2779 is respectfully submitted to your committee.

HB 2779 would create the Senior Citizens Property Tax Deferral Act. The bill would allow citizens who are 65 years of age or older to defer up to $2,500 in property taxes on their homestead property. In order to qualify for the deferral, the taxpayer must have resided in the homestead for at least ten years; the taxpayer must own the estate or own it jointly with another person residing in the homestead; the taxpayer claiming the deferral and all members of the taxpayer's household must have a combined Kansas adjusted gross income of $60,000 or less; the property for which the deferral is claimed must not be income producing; the property taxes for prior years have been paid; the total unpaid balances of debts secured by mortgages and other liens on the property must not exceed 50.0 percent of the appraised value of the property as determined by the county or district appraiser; and the property must be insured by a property and casualty insurance policy. Taxpayers would file a claim for a deferral to the Department of Revenue along with their state income tax return, and the Department of Revenue would notify county treasurers of approved deferrals on or before June 15. A guardian, conservator, or attorney-in-fact could claim the deferral for the taxpayer.

A lien for the deferred taxes would be created when a deferral was approved. The lien for the deferred taxes would accrue interest, and it would be junior to any mortgage or deed of trust recorded prior to the lien, but would have priority over all liens subsequently attached. The Department of Revenue would pay the county treasurer the amount certified as deferred, and the county treasurer would distribute the money received in the same manner as if the tax had been regularly paid. If payment of the deferred taxes and accrued interest is tendered to the county treasurer, then the county treasurer would remit the money collected to the Department of Revenue. The Department of Revenue would issue a release of the deferred tax lien upon receipt of payment.

The Pooled Money Investment Board (PMIB) would be authorized to loan money to the Department of Revenue to meet the payment obligations related to the deferred taxes. The Secretary of Revenue would certify to the PMIB the amount of each loan, and the PMIB would transfer funds to the State Treasurer. The State Treasurer would deposit the entire amount in the state treasury to the credit of the Senior Citizen Property Tax Deferral Fund. All expenditures from the fund would be made upon warrants of the Director of Accounts and Reports issued through vouchers approved by the Secretary of Revenue.

All deferred taxes would become payable when the taxpayer who claimed the deferral dies; the property on which the taxes were deferred is sold or becomes subject to a contract of sale or title to the property is transferred to another person; the property is no longer the taxpayer's homestead, except in the case of ill health; or if the property becomes income producing. All deferred taxes and accrued interest would be due within 90 days of becoming payable. This deadline would be extended to 180 days in the case of the taxpayer's death.

The spouse of the taxpayer could continue to claim the deferral in the case of the taxpayer's death or the property no longer being the taxpayer's homestead. In order for the deferral to continue, the surviving spouse must be 60 years of age or older, the property must be the homestead of the spouse, the spouse must own the estate or own it jointly with another person residing in the homestead, and the spouse and any members of the spouse's household must have a combined Kansas adjusted gross income of $60,000 or less.

The Secretary of Revenue would submit an annual report to the Governor and the Legislature on the tax deferrals. The report would include the number of taxpayers establishing claims for deferral, the amount of taxes deferred in each county, and other information the Secretary considers useful. The Senior Citizens Property Tax Deferral Act would go into effect beginning January 1, 2019, and no deferrals could be claimed after December 31, 2023.

The Department of Revenue does not have data on the number of households that are owned by individuals who were 65 years of age or older with income under $60,000 who could choose to participate in this program; and therefore, is unable to provide an estimate of the amount of property taxes that would be deferred under HB 2779.

The Department of Revenue indicates that the bill would require it to perform additional processing, tracking, and reporting requirements to properly implement and administer this new program. The Department estimates it would require $575,603 from the State General Fund in FY 2019, including $384,803 in reoccurring expenses for the salary and wages and operational expenses of 4.00 new FTE positions, and $190,800 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 PMIB indicates that the bill would require it to perform additional administrative responsibilities; however, the cost of performing these responsibilities would be negligible and could be absorbed within existing resources. The PMIB indicates that the bill has the potential to reduce the overall amount of interest earnings during the life of the program by requiring the PMIB to provide loans to the Department of Revenue for the Senior Citizens Property Tax Deferral Program, which would reduce the amount of funds that are available for other investments. Once these monies are loaned out, the state would not have access to these monies for cashflow purposes and it would potentially be years later before the deferred property taxes and accrued interest are repaid under the circumstances outlined in the bill.

The League of Kansas Municipalities indicates the bill would have no fiscal effect on the operation of cities. The bill requires the Department of Revenue to pay the county treasurer the property tax amount certified as deferred, and the county treasurer would then distribute the money to the taxing jurisdiction, which would be the same as if the tax had been regularly paid. The Kansas Association of Counties indicates the bill has the potential to increase administrative costs for counties to notify any lienholders of record for any property that receive the property tax deferral. The county treasurer would also be required to process deferred property tax and accrued interest payments for the Department of Revenue. The Kansas Association of Counties is unable to determine the amount staff time and resources to perform the requirements of the bill, and therefore is unable to provide an estimate of the fiscal effect on counties. Any fiscal effect associated with HB 2779 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

Larry L. Campbell
Chief Budget Officer

cc: Dale Dennis, Education
Jody Allen, Tax Appeals
Scott Miller, PMIB
Lynn Robinson, Department of Revenue
Chardae Caine, League of Municipalities
Melissa Wangemann, Association of Counties