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

February 6, 2017

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 147 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 147 is respectfully submitted to your committee.

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. SB 147 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. The bill would prohibit any penalties or interest from the underpayment of taxes from calculating non-wage business income in tax year 2017, as long as the taxes are paid by April 15, 2018.

Under current law, individual income tax rates are set at 2.6 percent for income under $15,000 ($30,000 for married filing jointly) and at 4.6 percent for income $15,000 and over ($30,000 for married filing jointly) in tax year 2018. The bill would increase the bottom rate for all taxpayers to 3.0 percent and increase the top rate for all taxpayers to 4.9 percent beginning in tax year 2018 and in all future tax years. Future rate reductions would be determined by 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 eliminate the low-income exclusion after tax year 2017 that generally eliminates all income tax liability for single filers with taxable income of $5,000 or less, and for married taxpayers filing jointly with taxable income of $12,500 or less.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	$288,100,000	$288,100,000	$372,200,000	$372,200,000
Expenditure	$292,673	$292,673	--	--
FTE Pos.	--	4.00	--	--

The Department of Revenue estimates that HB 2023 would increase State General Fund revenues by $288.1 million in FY 2018 and $372.2 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	$377,300,000	$382,400,000	$387,500,000

To formulate these estimates, the Department of Revenue reviewed Kansas and Internal Revenue Service (IRS) data from tax year 2014 and tax year 2015. The Department of Revenue indicates that State General Fund estimates for FY 2018 and FY 2019 are based on the November 2016 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 all non-wage business income and allowing business losses to be claimed by the taxpayer beginning on January 1, 2017. The rate increases and eliminating the low-income exclusion are not retroactive and would be effective on July 1, 2018.

The Department of Revenue indicates that the bill would require $292,673 from the State General Fund in FY 2018 to implement the bill and to modify the automated tax system. The bill would require 4.00 new FTE Customer Service Representative positions in FY 2018 to help answer questions from taxpayers and help administer the individual income tax law changes. 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 Revenue is still compiling complete administrative cost information to implement the bill, including any ongoing costs for the additional 4.00 FTE positions that have been requested for FY 2018. If additional administrative cost information is received that materially alters the stated fiscal effect of SB 147, then a revised fiscal note will be prepared.

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 a precise estimate of the amount of debts setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with SB 147 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Colleen Becker, Department of Administration