

February 13, 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 175 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 175 is respectfully submitted to your committee.

SB 175 is a comprehensive tax bill that implements the Governor's tax policy changes for the 2017 Legislative Session. The bill would increase the annual report filing fee that is collected by the Secretary of State's Office for all for-profit entities from \$40 to \$200. The bill would require that all shareholders and partners owning at least 5.0 percent of the business entity to also pay a \$200 annual report filing fee.

The bill would increase the state's cigarette, tobacco products, and liquor enforcement taxes on July 1, 2017. The bill would increase the cigarette tax to \$2.29 a pack (from \$1.29 a pack), increase the tobacco products tax to 20.0 percent of the wholesale price (from 10.0 percent), and increase the liquor enforcement tax to 16.0 percent on gross receipts (from 8.0 percent). The bill would establish an inventory tax for all cigarette and tobacco products on hand as of July 1, 2017. The inventory tax would be \$1.00 per pack for cigarettes and 10.0 percent of the wholesale sales price for tobacco products on hand as of July 1, 2017 and the inventory tax would be due on July 31, 2017.

The bill would freeze the individual income tax rate for income under \$15,000 (\$30,000 for married filing jointly) at 2.7 percent in tax year 2018. The tax rate was set to reduce from 2.7 percent to 2.6 percent in tax year 2018. 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 Community Services Contribution Tax Credit beginning in tax year 2018. The bill would require all passive income from rents and royalties to be included as income for Kansas income tax purposes beginning in tax year 2018. This fiscal note assumes that the tax on all passive income from rents and royalties would be retroactive to include tax year 2017 to coincide with the Governor's proposal.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	\$191,500,000	\$191,500,000	\$201,900,000	\$201,900,000
Expenditure	\$88,828	\$88,828	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 175 would increase State General Fund revenues by \$191.5 million in FY 2018 and by \$201.9 million in FY 2019. The specific changes in State General Fund revenues for FY 2018 and FY 2019 are shown in the following table:

	<u>FY 2018</u>	<u>FY 2019</u>
Annual Report Filing Fees	\$ 33,600,000	\$ 33,600,000
Cigarette Tax to \$2.29 per pack	52,800,000	46,400,000
Tobacco Products Tax to 20.0 Percent	7,000,000	7,800,000
Liquor Enforcement Tax to 16.0 Percent	52,300,000	54,700,000
Freeze Lower Rate at 2.7 Percent	4,800,000	16,100,000
Community Service Contribution Tax Credit	1,000,000	3,300,000
Passive income (Rents & Royalties)	<u>40,000,000</u>	<u>40,000,000</u>
Total SGF Changes	\$191,500,000	\$201,900,000

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. The annual report filing fee changes were calculated by the Division of the Budget from data on the number of business entities from the Secretary of State. The Secretary of State indicates that they do not have data on the amount of shareholders and partners owning at least 5.0 percent of the business entity that would now be required to pay the annual \$200 filing fee. The fiscal note assumes 25.0 percent of LLCs would have at least one shareholder and an average of three partners would own at least 5.0 percent of the business entity and would be required to pay the additional annual \$200 filing fee. The FY 2018 estimates for cigarettes and tobacco products include a total of approximately \$11.5 million for the inventory tax. The FY 2018 estimate assumes that the tax on all passive income from rents and royalties will be retroactive to begin on January 1, 2017.

The Department indicates that the bill would require \$88,828 from the State General Fund in FY 2018 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 Department of Commerce is currently responsible for the administration of Community Services Contribution Tax Credit. The Department of Commerce indicates that the costs savings from no longer being required to administer this tax credit would be negligible.

The Honorable Caryn Tyson, Chairperson

February 13, 2017

Page 3—SB 175

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 debts setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with SB 175 is reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Bob North, Commerce
Linda Borrer, Office of the Secretary of State
Colleen Becker, Department of Administration