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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

January 31, 2018

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 303 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 303 is respectfully submitted to your committee.

Under current law, Kansas corporations, banks, trust companies, and savings and loans are allowed to claim the Kansas expensing deduction for investments in qualifying machinery and equipment that are placed into service in Kansas for tax year 2014 and each future tax year. SB 303 would allow individual income taxpayers to claim the expensing deduction beginning in tax year 2017.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	($21,100,000)	($21,100,000)
Expenditure	--	--	$19,570	$19,570
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 303 would decrease State General Fund revenues by $21.1 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	($9,800,000)	($9,900,000)	($10,100,000)	($10,300,000)

To formulate these estimates, the Department of Revenue reviewed data from tax year 2012, which was the last tax year that individual income taxpayers were allowed to claim the expensing deduction. Because the bill is retroactive to tax year 2017, the Department assumes individual income taxpayers would amend tax year 2017 returns and apply for refunds in FY 2019. The estimate for FY 2019 includes 100.0 percent of tax year 2017 tax liability, 100.0 percent of tax year 2018 tax liability, and 30.0 percent of tax year 2019 tax liability. The estimate for FY 2020 includes 70.0 percent of tax year 2019 tax liability and 30.0 percent of tax year 2020 tax liability. The Department of Revenue indicates that State General Fund estimate for FY 2019 is based on the 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 $19,570 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 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 additional amount of debt setoffs that would be intercepted as a result of the bill. Any fiscal effect associated with SB 303 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

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