

STATE OF KANSAS



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LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

February 6, 2018

The Honorable Julia Lynn, Chairperson
Senate Committee on Commerce
Statehouse, Room 445-S
Topeka, Kansas 66612

Dear Senator Lynn:

SUBJECT: Fiscal Note for SB 334 by Senate Committee on Commerce

In accordance with KSA 75-3715a, the following fiscal note concerning SB 334 is respectfully submitted to your committee.

Under current law, the High Performance Incentive Program (HPIP) provides certified companies a 10.0 percent non-refundable income tax credit for eligible capital investments that exceed \$50,000 (\$1.0 million in five metro counties) that can be carried forward for the next 16 tax years as long as the company is recertified in the tax year that the carry forward is used. SB 334 would extend the timeframe that HPIP tax credits could be claimed. Beginning in tax year 2018, 75.0 percent of the amount of HPIP tax credits that remain unused at the end of the 16th taxable year would be allowed to be carried forward until used by the certified company. The bill would require that after the 16th taxable year, the certified company would only be allowed to claim up to 25.0 percent of the remaining unused HPIP tax credits in any one tax year. Unused HPIP tax credits that expired before January 1, 2018, would not be revived.

The Department of Revenue estimates that SB 334 would decrease State General Fund revenues by up to \$30.0 million in FY 2019 and the same potential amount in future fiscal years. To formulate these estimates, the Department of Revenue reviewed data on historical HPIP tax credit carry forwards and audit results. The Department of Revenue indicates that 289 taxpayers claimed almost \$51.7 million in HPIP tax credits in tax year 2015 with more than \$600.0 million in outstanding HPIP tax credits that have been carried forward to be claimed in future tax years. Extending the carryforward period would allow qualified taxpayers additional time to have enough tax liability in the current and subsequent tax years to apply the tax credits. The Department of Revenue estimates that \$30.0 million is the maximum amount of additional HPIP tax credits that could be claimed in each future tax year based on the large HPIP tax credit carryforward balance that could be carried forward indefinitely beyond the current limitation of 16 tax years.

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The Department of Revenue indicates that the bill would require \$28,800 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 indicates that the administrative costs associated with certifying HPIP companies beyond the 16th taxable year would be negligible and could be absorbed within existing staff levels and resources. Any fiscal effect associated with SB 334 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
Bob North, Commerce