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Larry L. Campbell, Director

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REVISED

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Revised Fiscal Note for HB 2252 by Representative Hodge

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2252 is respectfully submitted to your committee.

HB 2252 would allow a taxpayer to claim a new non-refundable income tax credit for 20.0 percent of the increase in total salaries paid to Kansas employees from the previous year beginning in tax year 2019. The amount of the tax credit for each taxpayer would be capped at $4,000 per tax year. Any unused tax credits would not be allowed to be carried forward into future tax years. The bill would allow the tax credits to be transferred to another taxpayer that has Kansas tax liability as long as the Director of Taxation at the Department of Revenue is notified of the transfer. The Department of Revenue would have the authority to adopt rules and regulations to implement the bill.

The Department of Revenue indicates that it does not have enough information to make a reliable estimate on HB 2252 because the fiscal effect of the bill would be affected by future economic and labor conditions and business decisions from employers. The Department of Revenue provided a hypothetical scenario that shows that if wages grow at a constant 4.0 percent each year, then the income tax credit would decrease state revenues by approximately $60.1 million in FY 2020. Of that total, the State General Fund is estimated to decrease by $60,084,000 in FY 2020, while the Insurance Department Service Regulation Fund is estimated to decrease by $16,000 in FY 2020. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2021	FY 2022
State General Fund	($61,184,000)	($62,284,000)
Service Regulation Fund	(16,000)	(16,000)
	($61,200,000)	($62,300,000)

To formulate these estimates, the Department of Revenue reviewed data from Kansas business entities that issued an Internal Revenue Service W-2 Form to at least one employee. Allowing taxpayers to claim a 20.0 percent tax credit that is capped at $4,000 is estimated to reduce State General Fund revenues by $58.5 million from individual income tax, corporation income tax, and financial institutions privilege tax in FY 2020. Receipts from these tax sources are also estimated to be reduced by $59.6 million in FY 2021 and $60.7 million in FY 2022. The Department indicates that State General Fund estimates for FY 2020 are based on the November 2018 Consensus Revenue Estimate. State General Fund revenues in the out years assume the wage growth rate will continue to grow at approximately 4.0 percent.

The Department of Revenue indicates that it would require a total $980,285 from the State General Fund in FY 2020 to implement the bill and to modify the automated tax system. The bill would require 3.00 new FTE positions to create forms and instructions, and process and track the income tax credit. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue and outside contract programmer services. In addition, 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. Since the original fiscal note was issued, the Department of Revenue lowered its estimate on administrative costs needed to implement the bill.

The Insurance Department indicates that the bill will reduce insurance premiums taxes by approximately $1.6 million per year starting in FY 2020. Because, the Insurance Department is able to retain 1.0 percent of insurance premiums taxes in the Insurance Department Service Regulation Fund, the bill estimated to reduce State General Fund revenue by $1,584,000 and reduce Insurance Department Service Regulation Fund revenue by $16,000. The fiscal effect on insurance premiums tax collections in future fiscal years will remain fairly constant because the number of insurance companies claiming the maximum amount of the tax credit is not expected to fluctuate significantly. According to the Insurance Department, the bill would require between $25,000 and $50,000 from its Insurance Department Service Regulation Fund for additional computer programming costs in order to accept the new tax credit with annual insurance premium tax filings.

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 amount of additional debt setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2252 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Director of the Budget

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