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Larry L. Campbell, Director

Laura Kelly, Governor

February 20, 2020

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 398 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 398 is respectfully submitted to your committee.

SB 398 would create a new refundable food sales tax credit and repeal the existing non-refundable food sales tax credit beginning in tax year 2020. The new tax credit amount would be determined by tax filing status and could be claimed by all taxpayers with income at or below the following federal adjusted gross income levels:

Filing Status	Income Level	Credit Amount
Single	$30,000	$ 60
Head of Household	40,000	180
Married Filing Jointly	40,000	240
Married Filing Separate	30,000	60

The bill would allow the income level and tax credit amounts to be adjusted annually beginning in tax year 2021, according to the cost-of-living adjustments from the federal Internal Revenue Service (IRS). The bill would require each county treasurer to include information from the Department of Revenue about claiming the refundable food sales tax credit in the annual property tax statement. The Department of Revenue would have the authority to write rules and regulations to implement the bill.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	($53,200,000)	($53,200,000)
Expenditure	--	--	$234,434	$234,434
FTE Pos.	--	--	--	3.00

The Department of Revenue estimates that SB 398 would decrease State General Fund revenues by $53.2 million in FY 2021, $54.8 million in FY 2022, and $56.5 million in FY 2023.

To formulate these estimates, the Department reviewed tax return data from tax year 2018. The Department created a simulated tax table for all taxpayers that would be eligible for the new refundable food sales tax credit. The Department of Revenue estimates that more than 540,000 tax returns would claim $63.2 million in new refundable food sales tax credits beginning in FY 2021. The Department estimates that the number of tax returns grows approximately 1.0 percent each year and the cost of living adjustment would increase by 2.0 percent each year.

The bill would repeal the current non-refundable food sales tax credit after December 31, 2019. The current non-refundable food sales tax credit is restricted to taxpayers that earn $30,615 or less and are over the age of 55, or disabled or blind, or have at least one dependent under the age of 18 living with them the entire year. Under the provisions of the federal Tax Cut and Jobs Act of 2017, the IRS no longer collects the number of dependent exemptions claimed on federal income tax returns, which places the burden to verify and audit dependent exemption data for the current food sales tax credit on the Department of Revenue. The Department of Revenue indicates that 66,469 claimed $9,666,483 in non-refundable food sales tax credits in tax year 2018. Repealing this tax credit would save approximately $10.0 million in State General Fund refunds in FY 2021.

The net effect of repealing the current non-refundable food sales tax credit and creating the new refundable food sales tax credit are estimated to reduce State General Fund receipts by $53.2 million in FY 2021 ($10.0 million for repealing the current non-refundable food sales tax credit minus $63.2 million for the new refundable food sales tax credit).

The Department of Revenue indicates that it would require a total $234,434 from the State General Fund in FY 2021 to implement the bill and to modify the automated tax system. The bill would require the Department to hire at least 3.00 new Customer Service Representative FTE positions to review and process state returns that include the new refundable food sales 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. 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 amount of additional debts setoffs that will be intercepted as a result of the bill.

The Kansas Association of Counties indicates that the bill would require county treasurers to include additional information with the annual property tax statement. The Association indicates that the bill would likely require counties to incur programming and coding costs to include this information with the annual property tax statement. However, the Association did not provide a precise estimate of the amount of additional programming and coding costs for counties. The fiscal effect associated with SB 398 is reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jeff Scannell, Department of Administration
Jay Hall, Association of Counties