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REVISED

The Honorable Adam Smith, Chairperson
House Committee on Taxation
Statehouse, Room 185A-N
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Revised Fiscal Note for HB 2328 by Representative Tarwater, et al.

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2328 is respectfully submitted to your committee.

HB 2328 would create a new income tax credit for graduates of aerospace and aviation-related educational programs and their employers beginning in tax year 2022 through tax year 2026. The bill allows a qualified employer whose principal business activity is in the aviation sector to receive a non-refundable 50.0 percent income tax credit for the amount of tuition reimbursed to a qualified employee. The tax credit cannot exceed 50.0 percent of the average annual tuition for enrollment in a qualified program at an accredited educational institution. Tuition includes amounts paid during participation in a qualified program and tuition debt upon completion of a qualified program. The tax credit can only be claimed if the qualified employee, within one year of starting employment, has earned an undergraduate or graduate degree in engineering or a technical degree or certificate that prepares the graduate for gainful employment with a qualified employer. The tax credit could be claimed for up to four years if the qualified employee remains employed with the qualified employer. The tax credit could not be carried forward into future tax years.

The qualified employer would also be allowed to claim a non-refundable income tax credit for up to five years for compensation paid to a qualified employee. The amount of the tax credit would be 10.0 percent of the compensation paid to a qualified employee. The tax credit amount could not exceed $15,000 annually for each qualified employee. The tax credit could not be carried forward into future tax years.

The bill would allow a qualified employee to claim a $5,000 income tax credit for up to five years during which the employee works for a qualified employer. Unused tax credits would be allowed to be carried forward for up to four tax years. The Department of Revenue would have the authority to adopt rules and regulations to implement the bill. Beginning with the 2022 Legislative Session, the Secretary of Revenue would be required to submit an annual report to the House Committee on Appropriations and the Senate Committee on Ways and Means on the cost and effectiveness of this new tax credit program.

The Department of Revenue has reviewed HB 2328 and has determined that it does not have enough information to make a reliable estimate on the fiscal impact of the bill, including the numbers of qualified employees and aerospace companies that offer tuition reimbursement programs. The Department provides the following statistics, which may be relevant to the bill:

1. According to the Kansas Statistical Abstract 2019 (from the University of Kansas), the total employment in Aerospace Product and Parts Manufacturing in Kansas was 33,200;
2. The number of aerospace engineers in Kansas was 2,450 in 2019 (U.S. Bureau of Labor Statistics);
3. The number of people who graduated with an engineering degree in 2019: Kansas State University-694 and the University of Kansas-653 (from each university's school of engineering); and,
4. University of Kansas, School of Engineering in-state tuition: $11,166.

Based on the above statistics, the Department of Revenue assumes that 500 new graduates from in-state institutions, earning $52,000 annual compensation, could qualify for the income tax credit for themselves and their employer. The bill has the potential to reduce State General Fund revenues by approximately $7.9 million beginning in FY 2023 and ending in FY 2027 by allowing three new income tax credits. The income tax credit for tuition reimbursements would cost approximately $2.8 million, the income tax credit for compensation paid to a qualified employee would cost approximately $2.6 million, and the income tax credit for the qualified employee would cost approximately $2.5 million.

The Department indicates that the bill would require $318,543 from the State General Fund in FY 2022 to implement the bill and to modify the automated tax system. The bill would require 2.00 new FTE positions to manage the new tax credit programs and to answer questions from taxpayers. This bill would require modifications to the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. 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 decreased its estimate on administrative costs needed to implement the bill.

The Board of Regents indicates the bill has the potential to increase the number of students choosing aerospace and aviation-related educational programs; however, it is not possible to estimate any potential fiscal impact on higher education institutions within the Board of Regents system because it is unknown how many students and employers would take advantage of the new income tax credit program. Any fiscal effect associated with HB 2328 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Kelly Oliver, Board of Regents
Jeff Scannell, Department of Administration