Division of the Budget
Landon State Office Building
900 SW Jackson Street, Room 504
Topeka, KS 66612

Kansas
Division of the Budget

Phone: (785) 296-2436
adam.c.proffitt@ks.gov
http://budget.kansas.gov

Adam Proffitt, Director

Laura Kelly, Governor

February 15, 2022

The Honorable Sean Tarwater, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 346-S
Topeka, Kansas 66612

Dear Representative Tarwater:

SUBJECT: Fiscal Note for HB 2680 by Representatives Poskin, Clayton, and Tarwater

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2680 is respectfully submitted to your committee.

HB 2680 would create the Kansas Employee Emergency Savings Account (KEESA) Program which would be administered by the Department of Commerce. The bill would provide assistance to eligible employers with recruiting and retaining employees in a challenging labor market through incentives to contribute to employee emergency savings accounts, to encourage employees of eligible employers to save money for emergencies, avoid high-cost borrowing, and to encourage financial literacy. Eligible employers would be required to hire no more than 250 employees and be required to apply to the Secretary of Commerce to participate in the KEESA Program. Eligible employers would be required to make an initial deposit of at least $50 on behalf of a participating employee to establish the savings account. The employer would be eligible for a 50.0 percent income tax credit for the initial deposits in a participating employees' savings account with max credit of $50 per employee. The eligible employer could make additional deposits to employees' savings accounts based on matching funds or other amounts as determined by the employer. The employer would be eligible for a 25.0 percent income tax credit for matching funds or other amounts deposited in a participating employees' savings account with max credit of $325 per employee. The tax credits would be available to be claimed in tax years 2023, 2024, and 2025. The tax credits would not be transferable, are non-refundable, and could be carried forward for up to two tax years.

The employee would be allowed make deposits in the savings account including a direct payroll deduction and would not incur any fees or charges for making that deduction. The employee savings accounts would be federally insured and be required to offer online and mobile banking access to the account. The mobile application would notify employees of payroll deposits and provide financial literacy tools and educational materials to learn about saving for emergencies, establishing savings goals, and budgeting. The employee would be the owner of the savings account and the employer could not restrict any uses of the money in the account.

On or before January 31 each year, the eligible employer would be required to provide to each participating employee notice of the employee's total deposits from payroll deductions made to the employee's savings account during the prior taxable year. Eligible employers would annually report to the Secretary of Commerce the number of employee savings accounts newly established during the preceding year; the amounts of initial deposits made by the employer during the preceding year; the number of participating employees during the preceding year; the amounts of deposits by employees from payroll deductions during the preceding year; the amounts of additional deposits made by the employer during the preceding year; and any additional information requested by the Secretary. The Department of Commerce would have the authority to write rules and regulations to implement the bill.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the federal adjusted gross income. The bill would allow an eligible employee to subtract from income for Kansas income tax purposes the amount of payroll that was deducted from wages and deposited in the taxpayer's employee savings account. The subtraction modification would be capped at $1,500 per taxpayer or $3,000 for married filing jointly and would be available for tax years 2023, 2024, and 2025.

The Department of Revenue estimates that HB 2680 has the potential to decrease State General Fund revenues by $232.2 million in FY 2024. The Department estimates similar reductions to State General Fund revenues in both FY 2025 and FY 2026. To formulate these estimates, the Department of Revenue reviewed data from the U.S. Census Bureau's Statistics of U.S. Businesses (SUSB). The State of Kansas has approximately 55,000 firms (businesses) with 250 or fewer employees, most of which have less than five employees. These 55,000 firms employ a total number of employees of approximately 520,000. If each qualified employer provides the maximum deposits to each employee's saving account earning the $375 maximum tax credit per employee ($50 for the initial deposit and $325 for matching), then $195.0 million in tax credits would be issued in tax year 2023. For the subtraction modification, the Department assumes 40.0 percent of taxpayers are married filing jointly, assumes an effective tax rate of 3.4 percent, and assumes the maximum amount would be allowed. The Department estimates the subtraction modification would reduce State General Fund revenues by $37.2 million in tax year 2023.

The Department of Revenue indicates that it would require a total $139,060 from the State General Fund in FY 2023 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. 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.

The Department of Commerce indicates that bill would require $47,317 from the State General Fund in FY 2023 to implement the bill. The bill would require the Department hire a new 0.50 FTE position to manage this new program.

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. Any fiscal effect associated with HB 2680 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Sherry Rentfro, Department of Commerce
Celeste Chaney-Tucker, Department of Administration