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February 22, 2022

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 548-S
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 384 by Senator Hilderbrand

In accordance with KSA 75-3715a, the following fiscal note concerning SB 384 is respectfully submitted to your committee.

SB 384 would provide an income tax credit in the amount of the property taxes paid on the taxpayer's homestead beginning in tax year 2022. The tax credit would be capped at $1,000 per year and only one taxpayer per homestead could claim the tax credit. If the taxpayer did not own or occupy the property as a homestead for the entire year, then the tax credit amount could be prorated to the months that the taxpayer owned and occupied the property. The taxpayer would be required to be a citizen of the United States and a resident of Kansas to be eligible for the tax credit. No tax credit would be allowed if delinquent property taxes are owed on the taxpayer's homestead. Taxpayers receiving the Homestead Property Tax Refund or the Selective Assistance for Effective Senior Relief (SAFE-SR) tax credit would not be eligible to claim this new tax credit. The tax credit would be non-refundable, and it could not be carried forward to a future tax year. The bill would require that each county treasurer identify and include the amount of property taxes that would qualify for this new income tax credit on the residential property tax statement.

Estimated State Fiscal Effect				
	FY 2022 SGF	FY 2022 All Funds	FY 2023 SGF	FY 2023 All Funds
Revenue	--	--	($411,200,000)	($411,200,000)
Expenditure	--	--	$237,255	$237,255
FTE Pos.	--	--	--	3.00

The Department of Revenue estimates that SB 384 would decrease State General Fund revenues by $411.2 million in FY 2023, $415.3 million in FY 2024, and $419.5 million in FY 2025. To formulate these estimates, the Department of Revenue reviewed data on owner-occupied housing units in Kansas and current participation in the Homestead Property Tax Refund and the SAFE-SR tax credit programs. The Department estimates that there are 748,678 owner-occupied housing units in Kansas; however, only an estimated 516,613 owner-occupied housing units would qualify for this new tax credit after excluding 161,401 homeowners that have no tax liability and excluding 70,664 homeowners that currently participate in either the Homestead Property Tax Refund or the SAFE-SR tax credit programs. The Department estimates that the average tax credit claimed would be $796 per eligible housing unit, which would reduce State General Fund revenues by approximately $411.2 million in tax year 2022 or FY 2023 (516,613 eligible housing units x $796 average tax credit). The Department estimates that the number of tax returns would increase by 1.0 percent each year.

The Department indicates that the bill would require $237,255 from the State General Fund in FY 2023 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 3.00 new FTE positions to answer questions from taxpayers and to review, process, and audit additional income tax returns. The Department estimates that ongoing expenses for salaries and wages for the 3.00 FTE positions and overhead expenses would total $177,610 from the State General Fund in FY 2024. 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 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 has the potential to increase administrative costs for counties to include the amount of property taxes that would qualify for this new income tax credit on the residential property tax statement. It is unknown if the additional programming and other implementation costs could be absorbed within existing staff levels or if additional resources would be needed to implement the bill. Any fiscal effect associated with SB 384 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Jay Hall, Association of Counties
Lynn Robinson, Department of Revenue
Celeste Chaney-Tucker, Department of Administration