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Laura Kelly, Governor

February 27, 2023

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2175 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2175 is respectfully submitted to your committee.

Under current law, individual income tax rates are set at 3.1 percent for income under $15,000 ($30,000 for married filing jointly), 5.25 percent for income between $15,000 and $30,000 (between $30,000 and $60,000 for married filing jointly), and 5.7 percent for income $30,000 and over ($60,000 and over for married filing jointly). HB 2175 would create a procedure to allow individual income tax rates to decrease in tax year 2024 and tax year 2025 contingent on the 7.5 percent ending balance requirement being met for the State General Fund in FY 2023 and FY 2024. On July 1, 2023, the Director of Legislative Research would certify to the Secretary of Revenue and the Director of the Budget that the ending balance requirement was met in FY 2023 and the Secretary of Revenue would publish the new tax year 2024 rates by October 1, 2023. For tax year 2024, the bill sets the new individual income tax rate at 3.0 percent for taxpayers with income under $15,000 ($30,000 for married filing jointly) and set the new individual income tax rate to 5.35 percent for income over $15,000 ($30,000 for married filing jointly). If the ending balance requirement is not met in FY 2023, but then met in FY 2024, the procedure will allow the above rate reductions to occur beginning in tax year 2025. If the ending balance requirement is not met in both FY 2023 and FY 2024, then no reductions to individual income tax rates would occur.

If the ending balance requirement was met in FY 2023 and then again in FY 2024, then on July 1, 2024, the Director of Legislative Research would certify to the Secretary of Revenue and the Director of the Budget that the ending balance requirement was met in FY 2024 and the Secretary of Revenue would publish the new tax year 2025 rates by October 1, 2024. For tax year

2025, the bill sets the new individual income tax rate at 2.9 percent for taxpayers with income under $15,000 ($30,000 for married filing jointly) and set the new individual income tax rate to 5.0 percent for income over $15,000 ($30,000 for married filing jointly). The individual income tax rates in future fiscal years would be set at the lowest rates published by the Secretary of Revenue. The bill also removes outdated language from previous tax years.

Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	($51,700,000)	($51,700,000)
Expenditure	--	--	$98,252	$98,252
FTE Positions	--	--	--	--

The Department of Revenue estimates that HB 2175 would decrease State General Fund revenues by $51.7 million in FY 2024, $247.9 million in FY 2025, and $425.7 million in FY 2026. To formulate these estimates, the Department of Revenue simulated this tax policy change based on actual tax return data from tax year 2020. The estimate for FY 2024 includes 30.0 percent of tax year 2024 tax liability. The estimate for FY 2025 includes 70.0 percent of tax year 2024 tax liability and 30.0 percent of tax year 2025 tax liability. The estimates assume the ending balance requirement is met in both FY 2023 and FY 2024 and individual income tax rate reductions occur in both tax year 2024 and tax year 2025.

If the ending balance requirement was met in FY 2023, but not met in FY 2024, the bill would decrease State General Fund revenues by $51.7 million in FY 2024, $172.7 million in FY 2025, and $174.5 million in FY 2026. If the ending balance requirement is not met in FY 2023, but met in FY 2024, the bill would decrease State General Fund revenues by $52.2 million in FY 2025 and $174.5 million in FY 2026. If the ending balance requirement is not met in both FY 2023 and FY 2024, then the bill would not have a fiscal effect on State General Fund revenues.

The Department indicates that the bill would require $98,252 from the State General Fund in FY 2024 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 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 a precise estimate of the number of debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2175 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Tamara Emery, Department of Administration
Lynn Robinson, Department of Revenue