

March 22, 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 2445 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2445 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 at 5.7 percent for income \$30,000 and over (\$60,000 and over for married filing jointly). HB 2445 would create a five-bracket income tax system beginning in tax year 2024. The individual income tax rates would be set at 1.5 percent for income under \$15,000 (under \$30,000 for married filing jointly), 4.75 percent for income between \$15,000 and \$30,000 (between \$30,000 and \$60,000 for married filing jointly), 5.25 percent for income between \$30,000 and \$125,000 (between \$60,000 and \$250,000 for married filing jointly), 7.0 percent for income between \$125,000 and \$500,000 (between \$250,000 and \$1.0 million for married filing jointly), and 8.5 percent for income \$500,000 and over (\$1.0 million and over for married filing jointly). The bill also removes outdated language from previous tax years.

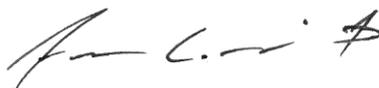
Estimated State Fiscal Effect				
	FY 2023 SGF	FY 2023 All Funds	FY 2024 SGF	FY 2024 All Funds
Revenue	--	--	(\$59,000,000)	(\$59,000,000)
Expenditure	--	--	\$39,500	\$39,500
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2445 would decrease State General Fund revenues by \$59.0 million in FY 2024, \$197.3 million in FY 2025, and \$199.3 million in FY 2026. To formulate these estimates, the Department of Revenue reviewed 1.6 million tax returns from tax year 2020 and created a simulated tax table. It is estimated that this change will reduce tax year 2024 individual income tax liability by \$196.7 million, tax year 2025 liability by \$198.7 million, and tax year 2026 liability by \$200.7 million. 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 Department indicates that the bill would require \$39,500 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 an estimate of the amount of additional debt setoffs that would be intercepted as a result of the bill. Any fiscal effect associated with HB 2445 is not reflected in *The FY 2024 Governor's Budget Report*.

Sincerely,



Adam Proffitt
Director of the Budget

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