

February 9, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2052 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2052 is respectfully submitted to your committee.

HB 2052 would create a non-refundable income tax credit for qualified tuition and related expenses that are paid to a Kansas educational institution. The credit would be 25.0 percent of the credit claimed against the taxpayer's federal income tax liability under Section 25A of the federal Internal Revenue Code, which authorizes the Hope and Lifetime Learning Education Tax Credits. The unused portion of the credit could be carried forward until the total amount of the credit has been deducted. The credit would be effective beginning in tax year 2011.

Estimated State Fiscal Effect				
	FY 2011 SGF	FY 2011 All Funds	FY 2012 SGF	FY 2012 All Funds
Revenue	--	--	(\$14,700,000)	(\$14,700,000)
Expenditure	--	--	\$105,060	\$105,060
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2052 would decrease State General Fund revenues by \$14.7 million in FY 2012. The decrease in revenues and how the November 2, 2010 consensus revenue estimate for FY 2012 would be affected are shown in the following table:

Effect on FY 2012 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 2, 2010)	Change in Revenue FY 2012	Proposed Adjusted CRE FY 2012
Motor Carrier	\$ 27,000	\$ --	\$ 27,000
Income Taxes:			
Individual	2,705,000	(14,700)	2,690,300
Corporate	275,000	--	275,000
Financial Institutions	21,000	--	21,000
Excise Taxes:			
Retail Sales	2,090,000	--	2,090,000
Compensating Use	295,000	--	295,000
Cigarette	97,000	--	97,000
Corporate Franchise	8,000	--	8,000
Severance	94,300	--	94,300
All Other Excise Taxes	96,400	--	96,400
Other Taxes	<u>127,000</u>	<u>--</u>	<u>127,000</u>
Total Taxes	\$5,835,700	(\$ 14,700)	\$5,821,000
Other Revenues:			
Interest	\$ 11,800	\$ --	\$ 11,800
Transfers	(93,700)	--	(93,700)
Agency Earnings	<u>56,800</u>	<u>--</u>	<u>56,800</u>
Total Other Revenues	(\$ 25,100)	\$ --	(\$ 25,100)
Total Receipts	\$5,810,600	(\$ 14,700)	\$5,795,900

To formulate this estimate, the Department of Revenue reviewed data on the Hope and Lifetime Learning Education Tax Credits claimed at the federal level. In tax year 2008, the Hope and Lifetime Learning Education Tax Credits claimed at the federal level totaled approximately \$7.6 billion. Assuming a 5.0 percent growth rate, the amount of these credits at the federal level in tax year 2011 would be approximately \$8.8 billion.

The estimate assumes that the amount of credits claimed by Kansas taxpayers constitutes 1.0 percent of the federal amount, or \$88.0 million. Because this credit would be non-refundable, it is assumed that only 67.0 percent of the total \$81.0 million would be used by Kansas taxpayers. Given these assumptions and that the Kansas credit would be equal to only 25.0 percent of the federal credit, the estimated reduction in income tax receipts would be approximately \$14.7 million in FY 2012 (\$88.0 million x 0.25 x 0.67).

The Department of Revenue indicates it would require \$105,060 from the State General Fund to implement this new tax credit in FY 2012. The Department indicates it would require

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\$60,660 for salaries and wages and operational expenses for 1.00 new FTE position to manage the implementation of this new tax credit. This bill would require modifications to the automated tax system. The Department estimates that the bill would require 1,480 hours of contract programming time at a total cost of \$44,400. Any fiscal effect associated with the passage of HB 2052 is not reflected in *The FY 2012 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue