

May 3, 2013

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 285-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2220 by House Committee on Veterans, Military and Homeland Security

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2220 is respectfully submitted to your committee.

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 amount of federal adjusted gross income. HB 2220 would provide a subtraction modification from federal adjusted gross income for the amount of compensation that an individual receives while serving on active duty in the armed forces beginning in tax year 2014. The bill defines active duty as full-time duty status in the active uniformed service of the United States, including members of the National Guard and reserve on active duty orders.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$6,000,000)	(\$6,000,000)
Expenditure	--	--	\$57,420	\$57,420
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2220 would decrease State General Fund revenues by \$6.0 million in FY 2014. The decrease in revenues and how the April 19, 2013 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 19, 2013)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 41,000	\$ --	\$ 41,000
Income Taxes:			
Individual	2,400,000	(6,000)	2,394,000
Corporate	370,000	--	370,000
Financial Institutions	31,000	--	31,000
Excise Taxes:			
Retail Sales	1,920,000	--	1,920,000
Compensating Use	295,000	--	295,000
Cigarette	90,000	--	90,000
Corporate Franchise	6,000	--	6,000
Severance	132,800	--	132,800
All Other Excise Taxes	100,000	--	100,000
Other Taxes	<u>162,000</u>	<u>--</u>	<u>162,000</u>
Total Taxes	\$5,547,800	(\$ 6,000)	\$5,541,800
Other Revenues:			
Interest	\$ 10,400	\$ --	\$ 10,400
Transfers	(159,930)	--	(159,930)
Agency Earnings	<u>56,000</u>	<u>--</u>	<u>56,000</u>
Total Other Revenues	(\$ 93,530)	\$ --	(\$ 93,530)
Total Receipts	\$5,454,270	(\$ 6,000)	\$5,448,270

The fiscal effect to state revenues during subsequent years would be as follows:

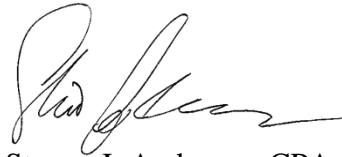
	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
State General Fund	(\$6,000,000)	(\$6,000,000)	(\$6,000,000)	(\$6,000,000)

To formulate these estimates, the Department of Revenue reviewed data on income tax withholdings receipts from the Department of Defense and the Kansas National Guard. The Department of Revenue indicates that it received total withholding of nearly \$15.0 million in tax year 2012 from the Department of Defense and the Kansas National Guard. Assuming that only 40.0 percent of these taxpayers would qualify for this subtraction modification because of the full time active duty requirement, the fiscal effect would be a reduction of individual income tax receipts by approximately \$6.0 million in FY 2014 and in each future fiscal year.

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The Department of Revenue indicates that it would require \$57,420 from the State General Fund in FY 2014 to implement this new subtraction modification program for the costs associated with creating forms and instructions and to modify the automated tax system. The required programming for this bill by itself (1,024 hours of in-house programming and 920 hours of implementation) would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2220 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

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

cc: Steve Neske, Revenue
Cheri Froetschner, Adjutant General's Office