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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

July 24, 2015

The Honorable Marvin Kleeb, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2434 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2434 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 2434 would require passive income to be included as income for Kansas income tax purposes beginning in tax year 2015. Examples of passive income include certain rents, royalties, and earnings from a business that the taxpayer is not directly involved in the management of the business. The bill would also limit the current subtraction modification for non-wage business income to $150,000 in tax year 2015 and $100,000 in tax year 2016 and all future tax years. The bill would also allow all passive and non-wage business losses to be claimed for Kansas income tax purposes.

| Estimated State Fiscal Effect | | | | |
|---|---|---|---|---|
| | FY 2015 SGF | FY 2015 All Funds | FY 2016 SGF | FY 2016 All Funds |
| Revenue | -- | -- | $58,300,000 | $58,300,000 |
| Expenditure | -- | -- | $77,760 | $77,760 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that HB 2434 would increase State General Fund revenues by $58.3 million in FY 2016. The increase in revenues and how the April 20, 2015 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
*(Dollars in Thousands)*

| Receipt Description | Consensus Revenue Estimates (April 20, 2015) | Change in Revenue FY 2016 | Proposed Adjusted CRE FY 2016 |
|---|---|---|---|
| Motor Carrier | $ 11,000 | $ -- | $ 11,000 |
| Income Taxes: | | | |
| Individual | 2,300,000 | 58,300 | 2,358,300 |
| Corporate | 440,000 | -- | 440,000 |
| Financial Institutions | 44,000 | -- | 44,000 |
| Excise Taxes: | | | |
| Retail Sales | 2,240,000 | -- | 2,240,000 |
| Compensating Use | 370,000 | -- | 370,000 |
| Cigarette | 88,000 | -- | 88,000 |
| Severance | 73,800 | -- | 73,800 |
| All Other Excise Taxes | 113,700 | -- | 113,700 |
| Other Taxes | 190,500 | -- | 190,500 |
| Total Taxes | $5,871,000 | $ 58,300 | $5,929,300 |
| Other Revenues: | | | |
| Interest | $ 17,800 | $ -- | $ 17,500 |
| Transfers | (232,680) | -- | (232,680) |
| Agency Earnings | 57,100 | -- | 57,100 |
| Total Other Revenues | ($ 157,780) | $ -- | ($ 157,780) |
| Total Receipts | $5,713,220 | $ 58,300 | $5,771,520 |

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

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|---|---|---|---|---|
| State General Fund | $65,600,000 | $70,600,000 | $75,800,000 | $81,200,000 |

To formulate these estimates, the Department of Revenue reviewed data from tax year 2013. The bill is estimated to increase individual income tax liability by $58.3 million in FY 2016 based on taxing all passive income, taxing all non-wage business income above $150,000, and allowing business losses to be claimed for tax year 2015.

The Department indicates that the bill would require $77,760 from the State General Fund in FY 2016 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. 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.

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 decreased, the amount available for possible debt setoffs is also reduced. However, the Department is unable to make a precise estimate of the amount of debts setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2434 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue