

February 26, 2015

The Honorable Les Donovan, Sr., Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 200 by Senator Hensley, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 200 is respectfully submitted to your committee.

Under current law, the Kansas Earned Income Tax Credit (EITC) is calculated at 17.0 percent of the federal EITC claimed against the taxpayer's federal income tax liability for tax year 2013 and each tax year thereafter. SB 200 would increase the amount of the Kansas EITC to 20.0 percent for tax year 2015 and each year thereafter.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2015 SGF | FY 2015 All Funds | FY 2016 SGF | FY 2016 All Funds |
| Revenue | -- | -- | (\$15,500,000) | (\$15,500,000) |
| Expenditure | -- | -- | -- | -- |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that SB 200 would decrease State General Fund revenues by \$15.5 million in FY 2016. The decrease in revenues and how the November 10, 2014 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 (Nov.10, 2014) | Change in Revenue FY 2016 | Proposed Adjusted CRE FY 2016 |
|------------------------|--|---------------------------|-------------------------------|
| Motor Carrier | \$ 12,000 | \$ -- | \$ 12,000 |
| Income Taxes: | | | |
| Individual | 2,300,000 | (15,500) | 2,284,500 |
| Corporate | 470,000 | -- | 470,000 |
| Financial Institutions | 39,000 | -- | 39,000 |
| Excise Taxes: | | | |
| Retail Sales | 2,270,000 | -- | 2,270,000 |
| Compensating Use | 380,000 | -- | 380,000 |
| Cigarette | 88,000 | -- | 88,000 |
| Severance | 115,900 | -- | 115,900 |
| All Other Excise Taxes | 114,100 | -- | 114,100 |
| Other Taxes | <u>181,600</u> | <u>--</u> | <u>181,600</u> |
| Total Taxes | \$ 5,970,600 | (\$ 15,500) | \$ 5,955,100 |
| Other Revenues: | | | |
| Interest | \$ 8,000 | \$ -- | \$ 8,000 |
| Transfers | (222,500) | -- | (222,500) |
| Agency Earnings | <u>55,300</u> | <u>--</u> | <u>55,300</u> |
| Total Other Revenues | (\$ 159,200) | \$ -- | (\$ 159,200) |
| Total Receipts | \$ 5,811,400 | (\$ 15,500) | \$ 5,795,900 |

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

| | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> | <u>FY 2020</u> |
|--------------------|----------------|----------------|----------------|----------------|
| State General Fund | (\$16,100,000) | (\$16,800,000) | (\$17,400,000) | (\$18,100,000) |

To formulate these estimates, the Department of Revenue reviewed data on the Kansas EITC. The Department indicates that Kansas taxpayers claimed approximately \$89.0 million in tax credits for tax year 2013 under the current rate of 17.0 percent of the amount of the federal tax credit. Increasing the amount of the Kansas EITC to 20.0 percent for tax year 2015 would increase the amount of credits claimed by \$15.5 million in FY 2016. The Department indicates that the administrative costs associated with SB 200 would be negligible and could be absorbed within existing resources.

The Department for Children and Families indicates that it relies on the Kansas EITC to meet the federal Temporary Assistance for Needy Families (TANF) program maintenance of

effort requirement. The TANF maintenance of effort is a fixed annual state expenditure requirement to qualify for the federal TANF Block Grant. Each state's maintenance of effort requirement is unique and based on a percentage state expenditures immediately prior to the TANF Block Grant. For Kansas, the annual TANF maintenance of effort is \$65,866,230 in FY 2016. The bill would increase the TANF maintenance of effort by approximately \$8.4 million in FY 2016. Because the TANF maintenance of effort requirement is projected to be met almost exactly in FY 2016 under the existing 17.0 percent rate, the bill would result in the agency exceeding the requirement by the same \$8.4 million. However, the bill would have no direct effect on the operations of the Kansas Department for Children and Families. Any fiscal effect associated with SB 200 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue