

Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 27, 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 251 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 251 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 251 would decrease the amount of the Kansas EITC to 8.0 percent for tax year 2015 and each year thereafter. The bill would also change the Kansas EITC from a refundable credit to non-refundable credit beginning in tax year 2015.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$69,100,000	\$69,100,000
Expenditure	--	--	\$46,554,400	\$46,554,400
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 251 would increase State General Fund revenues by \$69.1 million in FY 2016. The increase 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	69,100	2,369,100
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	\$ 69,100	\$6,039,700
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	\$ 69,100	\$5,880,500

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	\$71,900,000	\$74,700,000	\$77,700,000	\$80,800,000

To formulate these estimates, the Department of Revenue reviewed data on the Kansas Earned Income Tax Credit (EITC) Program. The Department indicates that Kansas taxpayers claimed approximately \$88.7 million in tax credits for tax year 2013 under the current rate of 17.0 percent of the amount of the federal tax credit. Decreasing the amount of the Kansas EITC to 8.0 percent for tax year 2015 and changing the tax credit from a refundable credit to non-refundable credit would decrease the amount of credits claimed by \$69.1 million in tax year 2015 or FY 2016, which would save the State General Fund that same amount.

The Department of Revenue indicates that it would require \$54,400 from the State General Fund in FY 2016 to implement the changes to the Kansas EITC, including the costs associated with updating forms and instructions and to modify the automated tax system. The

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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 Kansas Department for Children and Families indicates that the refundable portion of the Earned Income Tax Credit is used as the primary state match for the federal Temporary Assistance for Needy Families (TANF) Program. Decreasing the amount of the Kansas EITC to 8.0 percent and eliminating the refundable portion of the tax credit would require additional state matching funds devoted to state child welfare and poverty programs through the budget process to count toward the state maintenance of effort requirements and avoid any federal TANF penalties. The Kansas Department for Children and Families estimates that the state would have to spend an additional \$46.5 million from the State General Fund to keep its state maintenance of effort at required levels. This estimate assumes that there will be no other changes to current funding sources that are used for the TANF state maintenance of effort requirements.

The Department of Administration indicates that adjusting state income tax liabilities 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.

In sum, the bill would increase revenues by \$69.1million, but would require additional expenditures of \$46,554,400 (\$46.1 million in additional TANF state maintenance of effort plus \$54,400 in administrative costs from the Department of Revenue). Any fiscal effect associated with SB 251 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Jackie Aubert, Children & Families