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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

April 27, 2016

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 508 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 508 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 federal adjusted gross income. SB 508 would require 30.0 percent of net earnings from non-wage business income for individuals that have materially participated in the operation of a business to be included as income for Kansas income tax purposes beginning in tax year 2016. If the individual does not materially participate in the operation of the business, then 70.0 percent of the net earnings from non-wage business income would be included as income. All non-wage business income from guaranteed payments would continue to be taxed fully for Kansas income tax purposes. The bill would prohibit any penalties or interest from the underpayment of taxes from calculating non-wage business income in tax year 2016, as long as the taxes are paid by April 16, 2017.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	$170,600,000	$170,600,000
Expenditure	--	--	$98,320	$98,320
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 508 would increase State General Fund revenues by $170.6 million in FY 2017. The increase in revenues and how the April 20, 2016 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 20, 2016)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	$2,377,000	$ 170,600	$2,547,600
Corporate	396,000	--	396,000
Financial Institutions	40,000	--	40,000
Excise Taxes:			
Retail Sales	2,350,000	--	2,350,000
Compensating Use	405,000	--	405,000
Cigarette	133,000	--	133,000
Severance	33,900	--	33,900
All Other Excise Taxes	118,400	--	118,400
Other Taxes	185,900	--	185,900
Total Taxes	$6,039,200	$ 170,600	$6,209,800
Other Revenues:			
Interest	$ 13,400	$ --	$ 13,400
Transfers	56,600	--	56,600
Agency Earnings	41,800	--	49,000
Total Other Revenues	$ 111,800	$ --	$ 118,800
Total Receipts	$6,151,000	$ 170,600	$6,321,600

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

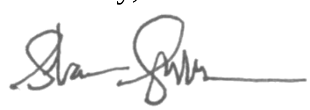
	FY 2018	FY 2019	FY 2020	FY 2021
State General Fund	$134,000,000	$136,700,000	$139,400,000	$142,200,000

To formulate these estimates, the Department of Revenue reviewed data from tax year 2014. The bill is estimated to increase individual income tax liability by $130.6 million in tax year 2016, $133.2 million in tax year 2017, and $135.9 million in tax year 2018 based on taxing a portion of non-wage business income and allowing business losses to be claimed by the taxpayer beginning in tax year 2016. The bill is estimated to increase State General Fund revenues by $170.6 million in FY 2017, which is 100.0 percent of tax year 2016 tax liability ($130.6 million) and 30.0 percent of tax year 2017 tax liability ($40.0 million). The State General Fund is estimated to increase $134.0 million in FY 2018 based on 70.0 percent of tax year 2017 tax liability ($93.2 million) and 30.0 percent of tax year 2018 tax liability ($40.8 million).

The Department indicates that the bill would require $98,320 from the State General Fund in FY 2017 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 SB 508 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Colleen Becker, Department of Administration