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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 9, 2017

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 213 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 213 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 213 would require employee retirement contributions in the Kansas Board of Regents Retirement Plan to be included as income for Kansas income tax purposes beginning in tax year 2017.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	$1,760,000	$1,760,000	$1,770,000	$1,770,000
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 213 would increase State General Fund revenues by $1,760,000 in FY 2018 and by $1,770,000 in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2020	FY 2021	FY 2022
State General Fund	$1,790,000	$1,810,000	$1,820,000

To formulate these estimates, the Department of Revenue reviewed data on employee retirement contributions from the Board of Regents. The Department indicates that 27,148 employees in Board of Regents system paid approximately $47.6 million in contributions to

Kansas Board of Regents Retirement Plan in 2016. Using an effective income tax rate of 3.65 percent, the bill would increase State General Fund revenues by approximately $1,769,000 in FY 2018. The Department indicates that State General Fund estimates for FY 2018 and FY 2019 are based on the November 2016 Consensus Revenue Estimate. State General Fund revenues in the out years assume a 1.0 percent annual growth rate. The bill is retroactive and the fiscal effect is based on taxing all employee retirement contributions in the Kansas Board of Regents Retirement Plan beginning on January 1, 2017.

The bill would have no administrative impact for the Department of Revenue. The bill would require changes to tax form instructions, but those costs are estimated be negligible.

The Board of Regents indicates that the bill would reduce income to 27,148 employees that participate in the Kansas Board of Regents Retirement Plan by requiring taxes to be paid on employee contributions. Eligible faculty and staff at state universities and the Board of Regents Office participate in the Kansas Board of Regents Retirement Plan with employees contributing 5.5 percent of their salary, which is matched with an employer contribution of 8.5 percent.

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 an estimate of the amount of debt setoffs that will no longer be intercepted as a result of the bill. Any fiscal effect associated with SB 213 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Kelly Oliver, Board of Regents
Lynn Robinson, Department of Revenue
Faith Loretto, KPERS