STATE OF KANSAS

DIVISION OF THE BUDGET
LANDON STATE OFFICE BUILDING
900 SW JACKSON STREET, ROOM 504
TOPEKA, KS 66612

PHONE: (785) 296-2436
FAX: (785) 296-0231
larry.campbell@ks.gov
http://budget.kansas.gov

GOVERNOR JEFF COLYER, M.D.
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

May 3, 2018

CORRECTED

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

Dear Senator Tyson:

SUBJECT: Corrected Fiscal Note for SB 453 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning SB 453 is respectfully submitted to your committee.

Under current law, a taxpayer is only allowed to use itemized deductions on a state income tax return if they also use itemized deductions on the federal income tax return. SB 453 would allow the taxpayer to use itemized deductions on the state income tax return regardless if they use itemized deductions on federal income tax return beginning in tax year 2018. The bill also removes outdated language on itemized deductions.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	($30,000,000)	($30,000,000)
Expenditure	--	--	$188,384	$188,384
FTE Pos.	--	--	--	3.00

In the original fiscal note issued, the Department of Revenue did not have enough information to calculate the fiscal effect. After reviewing additional data on state and federal itemized deductions, the Department was able to calculate the fiscal effect. The Department of

Revenue estimates that SB 453 would decrease State General Fund revenues by $30.0 million in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2020	FY 2021	FY 2022	FY 2023
State General Fund	($30,500,000)	($31,000,000)	($31,600,000)	($32,100,000)

To formulate these estimates, the Department of Revenue reviewed data on standard and itemized deductions from tax year 2016. Federal tax reform will entice more federal standard deduction users through the raising of the standard deduction and the limit on itemized deductions. The Department simulated tax year 2016 federal tax information and doubled the standard deduction and imposed a $10,000 cap on SALT (sum of state income tax and real estate/property taxes) to determine the changes in individual income taxes as a result of this bill. The Department indicates that it is limited in its capability of simulating other federal itemized changes such as the mortgage interest deduction due to a lack of information. After the above simulation on the federal tax returns, around 60.0 percent of those who itemized on the federal level would then switch to claiming the federal standard deduction. Of those 60.0 percent of taxpayers, the Department of Revenue compared their new Kansas itemized deductions ($10,000 cap on SALT) and their Kansas standard deduction. More than a half of those taxpayers would be better off claiming the Kansas itemized deduction. As a result, the fiscal impact would be around negative $20.0 million. Considering the relative size of mortgage interest and other deductions that the Department of Revenue is unable to simulate, the Department of Revenue estimates that the overall fiscal impact to be around negative $30.0 million in FY 2019.

The Department indicates that the bill would require $188,384 from the State General Fund in FY 2019 to implement the bill and to modify the automated tax system. The bill would require the Department to hire at least 3.00 new Customer Service Representative FTE positions to review and process state returns that include itemized deductions. The Department indicates that if taxpayers are including itemized deductions for state purposes and not for federal purposes, the burden will fall on the state to interpret federal Internal Revenue Code (IRC). The Department would also be required to audit taxpayers according to the federal IRC. 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, additional 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 increased, the amount available for possible debt setoffs is also increased. However, the

Department is unable to make an estimate of the amount of additional debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with SB 453 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

Larry L. Campbell
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
Colleen Becker, Department of Administration