

February 24, 2020

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185A-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2698 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2698 is respectfully submitted to your committee.

HB 2698 would allow a county commission the authority to submit to voters the question of imposing an earnings tax of up to 1.0 percent on individuals living or working within their county. The revenue would be used for general county purposes. The county commission or a petition signed by at least 10.0 percent of the voters in the county would be allowed to ask for an election to repeal the earning tax, or increase or decrease the earning tax rate. The voters would be required to vote on extending the earnings tax every five years. The bill includes definitions for “earnings tax” and “salaries, wages, commissions, and other compensation.”

Any person that is exempt from the payment of state income tax would also be exempt from the payment of the county earnings tax. The bill would allow taxpayers to credit the amount of the earnings tax paid to another county against the earnings tax of the county where the taxpayer’s residence is located. The county would be allowed to provide for deductions and exemptions from salaries, wages, and commissions and may provide exemptions for spouses and dependents. The county would be allowed to create a formula for the calculation of the earnings tax for nonresident individuals that have earnings for work performed within the county and for work performed outside the county.

The county may require employers to collect and remit the earnings tax to the county. The employer would be allowed to deduct and retain 1.5 percent of the total amount of earnings tax collected as a fee to compensate the employer for collecting this tax; however, the county would be allowed to reduce, eliminate, or reimpose this fee by resolution. The State of Kansas, as an employer in any county, would be allowed to deduct 3.0 percent of the total amount of earnings

tax collected if the county earnings tax is less than 1.0 percent, and would be allowed to deduct 1.5 percent of the total amount of earnings tax collected if the county earnings tax is 1.0 percent. The county would be allowed to request that employers submit a list of all employees residing within the county on a yearly basis.

The Department of Revenue indicates HB 2698 would have no fiscal effect on state tax revenues. The earnings tax would be collected by employers and remitted directly to the county. The Department of Administration indicates the bill would allow the State of Kansas to retain a portion of the county earnings tax as a fee to compensate it for collecting this tax from state employees located in counties where an earnings tax is imposed. The Department indicates that the administrative fee would likely offset its costs for collecting and remitting this tax to each county that imposes an earnings tax. However, not knowing how many counties would impose an earnings tax or what the amount of the earnings tax would be, the Department is unable to make an estimate of the fiscal effect associated with the bill.

The Kansas Association of Counties indicates the bill would allow county governments the ability to raise revenue for general county purposes through an earning tax if approved by the voters in that county. Considerations for the county would include the administrative costs necessary to administer and enforce compliance with the earnings tax, the amount of the administrative fee retained by employers for collecting and remitting the earnings tax from their employees; and the cost of an election authorizing an earnings tax. The Association does not know how many counties would request an election to impose an earnings tax or what the amount of the earnings tax would be to make an estimate of the fiscal effect associated with the bill. Any fiscal effect associated with HB 2698 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in cursive script that reads "L. L. Campbell".

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jay Hall, Association of Counties
Jeff Scannell, Department of Administration