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Jon Hummell, Interim Director

Division of the Budget

Sam Brownback, Governor

February 17, 2014

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2642 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2642 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 amount of federal adjusted gross income. HB 2642 would allow a subtraction modification for the net gain from the sale of cattle, horses, and other livestock held by the taxpayer for draft, breeding, dairy, or sporting purposes. The bill would require cattle and horses to be held by the taxpayer for 24 months or more from the date of acquisition and other livestock would be required to be held for at least 12 months. The bill indicates that the term livestock does not include poultry. The subtraction modification would be available to taxpayers retroactive to tax year 2013.

Estimated State Fiscal Effect				
	FY 2014 SGF	FY 2014 All Funds	FY 2015 SGF	FY 2015 All Funds
Revenue	--	--	($3,700,000)	($3,700,000)
Expenditure	--	--	$57,600	$57,600
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2642 would decrease State General Fund Revenues by $3.7 million in FY 2015. The decrease in revenues and how the November 6, 2013 consensus revenue estimate for FY 2015 would be affected are shown in the following table:

Effect on FY 2015 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2013)	Change in Revenue FY 2015	Proposed Adjusted CRE FY 2015
Motor Carrier	$ 24,000	$ --	$ 24,000
Income Taxes:			
Individual	2,525,000	(3,700)	2,521,300
Corporate	380,000	--	380,000
Financial Institutions	34,500	--	34,500
Excise Taxes:			
Retail Sales	2,160,000	--	2,160,000
Compensating Use	355,000	--	355,000
Cigarette	89,000	--	89,000
Severance	135,000	--	135,000
All Other Excise Taxes	111,000	--	111,000
Other Taxes	161,700	--	161,700
Total Taxes	$5,975,200	($ 3,700)	$5,971,500
Other Revenues:			
Interest	$ 10,000	$ --	$ 10,000
Transfers	(118,000)	--	(118,000)
Agency Earnings	49,900	--	49,900
Total Other Revenues	($ 58,100)	$ --	($ 58,100)
Total Receipts	$5,917,100	($ 3,700)	$5,913,400

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

	FY 2016	FY 2017	FY 2018	FY 2019
State General Fund	($2,000,000)	($2,100,000)	($2,200,000)	($2,300,000)

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service on net gains from the sale of property other than capital assets reported on federal income tax returns. The Department indicates that in tax year 2011 there were approximately $16.3 billion in net gains from the sale of property other than capital assets reported on federal returns. Assuming that Kansas is about 1.0 percent of that total, or $163.0 million, and net gains from the sale of livestock would be 25.0 percent of the total, it is estimated that $40.8 million would be excluded from Kansas income. Assuming a 5.0 percent growth rate, in tax year 2013, the amount of net gains in Kansas would be approximately $45.0 million. Using an average income tax rate of 4.0 percent, the reduction in tax liability in tax year 2013 would be approximately $1.8 million, $1.9 million in tax year 2014, and $2.0 million in tax year

2015. Because the bill is retroactive to tax year 2013, the Department assumes taxpayers would amend tax year 2013 returns and apply for refunds in FY 2015. Therefore, the reduction of income taxes in FY 2015 would be $3.7 million, with $1.8 million attributed to refunds for tax year 2013 and $1.9 million attributed to tax year 2014. The bill would reduce income taxes by $2.0 million in FY 2016 attributable to tax year 2015. The bill would not require an add-back modification for net losses from qualifying sales of cattle, horses, and other livestock.

The Department of Revenue indicates it would require $57,600 from the State General Fund to implement this new subtraction modification in FY 2015. The Department indicates it would require $500 to update forms and income tax publications. This bill would require modifications to the automated tax system. The required programming for this bill by itself would cost $57,100 in FY 2015. These costs include 1,014 hours of contract programming time at a total cost of $30,400 and user testing of 920 hours at a total cost of $26,700. Any fiscal effect associated with HB 2642 is not reflected in *The FY 2015 Governor's Budget Report*.

Sincerely,

Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Revenue
Mark Heim, Agriculture