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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

February 1, 2017

The Honorable Les Mason, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 521-E
Topeka, Kansas 66612

Dear Representative Mason:

SUBJECT: Fiscal Note for HB 2036 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2036 is respectfully submitted to your committee.

HB 2036 would create a new income tax credit for graduates of aerospace and aviation-related educational programs and their employers beginning in tax year 2018. The bill allows a qualified employer whose principal business activity is in the aviation sector to receive a non-refundable 50.0 percent income tax credit for the amount of tuition reimbursed to a qualified employee. The tax credit cannot exceed 50.0 percent of the average annual tuition for enrollment in a qualified program at a state educational institution in Kansas. The tax credit can only be claimed if the qualified employee, within one year of starting employment, has earned an undergraduate or graduate degree in engineering or a technical degree or certificate that prepares the graduate for gainful employment directly involved in the manufacturing of unmanned aircraft systems or components. The tax credit could be claimed for up to four years if the qualified employee remains employed with the qualified employer.

The qualified employer would also be allowed to claim a non-refundable income tax credit for up to five years for compensation paid to a qualified employee. The amount of the tax credit would be 10.0 percent of the compensation paid to a qualified employee that graduated from an in-state institution or 5.0 percent from an out-of-state institution. The tax credit amount cannot exceed $15,000 annually for each qualified employee that has graduated from in-state institution or $7,500 from an out-of-state institution.

The bill allows a qualified employee to claim a $5,000 income tax credit for up to five years that the employee works for a qualified employer. Unused tax credits would be allowed to be carried forward for up to four tax years.

The Department of Revenue has reviewed HB 2036 and has determined that it does not have enough information to make a reliable estimate on the fiscal impact of the bill, including the numbers of qualified employees and aerospace companies that offer tuition reimbursement programs. The Department provides the following statistics, which may be relevant to the bill:

1. According to the Kansas Statistical Abstract 2015 (from the University of Kansas), the total employment in Aerospace Product and Parts Manufacturing in Kansas was 29,900;

2. The number of aerospace engineers in Kansas was 2,500 in 2015 (U.S. Bureau of Economic Analysis);

3. The number of people who graduated with an engineering degree in 2015: Kansas State University-498, University of Kansas-400, Wichita State University-267 (from the Kansas Board of Regents);

4. The number of people who graduated with an engineering degree and stayed (and most likely got a job) in Kansas in 2015: Kansas State University-221, University of Kansas-155, Wichita State University-154 (from the Kansas Board of Regents); and,

5. University of Kansas, School of Engineering in-state tuition: $10,400.

Based on the above statistics, the Department of Revenue assumes that 500 new graduates from in-state institutions, earning $52,000 annual compensation, could qualify for the income tax credit for themselves and their employer. The bill has the potential to reduce State General Fund revenues by $7.7 million beginning in FY 2018 by allowing three new income tax credits. The income tax credit for tuition reimbursements would cost approximately $2.6 million, the income tax credit for compensation paid to a qualified employee would cost approximately $2.6 million, and the income tax credit for the qualified employee would cost approximately $2.5 million.

The Department indicates that the bill would require $225,100 from the State General Fund in FY 2018 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Board of Regents indicates the bill has the potential to increase the number of students choosing aerospace and aviation-related educational programs; however, it is not possible to estimate any potential fiscal impact on higher education institutions within the Board of Regents system because it is unknown how many students and employers would take advantage of the new income tax credit program.

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 debts setoffs that would be intercepted as a result of the bill. Any fiscal effect associated with HB 2036 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Colleen Becker, Department of Administration
Kelly Oliver, Board of Regents