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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

August 1, 2017

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2433 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2433 is respectfully submitted to your committee.

HB 2433 would create a new two bracket income tax rate system beginning in tax year 2018. For tax year 2018 and all future tax years, the individual income tax rates would be set at 2.95 percent for income under $15,000 ($30,000 for married filing jointly); and income over this amount would be determined by an exponential formula that changes the income tax rate based on the level of income. The bill would eliminate the automatic income tax rate reduction procedure that has the potential to reduce individual income tax rates beginning in tax year 2021.

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. The bill would require non-wage business income to be included as income for Kansas income tax purposes beginning in tax year 2018. The bill would also allow all non-wage business losses to be claimed for Kansas income tax purposes; however, losses from previous tax years could not be claimed. Income from the sale of qualified livestock and Christmas trees would be included as taxable income. The bill would allow 100.0 percent of the medical care expenses claimed on federal income tax returns as an itemized deduction on state income tax returns beginning in tax year 2018.

The bill would allow a non-refundable income tax credit for expenses for household and dependent care services necessary for gainful employment. This tax credit is more commonly referred to as the Child and Dependent Care Tax Credit. The state tax credit for tax year 2018 would be 25.0 percent of the credit claimed against the taxpayer's federal income tax liability under Section 21 of the federal Internal Revenue Code, which authorizes the federal household and dependent care tax credit. The bill requires any taxpayer claiming the credit to provide a valid Social Security number.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	$182,800,000	$182,800,000	$631,100,000	$631,100,000
Expenditure	$110,113	$110,113	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2433 would increase State General Fund revenues by $182.8 million in FY 2018 and by $631.1 million 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	$637,400,000	$643,700,000	$650,000,000

The Department of Revenue indicates that State General Fund estimates for FY 2018 and FY 2019 are based on the Consensus Revenue Estimate. The individual income tax estimate for FY 2018 includes 30.0 percent of tax year 2018 tax liability. The individual income tax estimate for FY 2019 includes 70.0 percent of tax year 2018 tax liability and 30.0 percent of tax year 2019 tax liability. The fiscal note was calculated by creating multiple brackets of taxable income and utilizing tax rates provided by Representative Pittman and his model. The actual exponential rates were not utilized in these estimates.

The Department indicates that the bill would require $110,113 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 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 would no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2433 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget