

April 30, 2021

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

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2440 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2440 is respectfully submitted to your committee.

HB 2440 would exempt certain amounts of a homestead property's assessed valuation for certain retired and disabled veterans beginning in tax year 2022. The amount of the exemption would be determined according to the disability rating for a service-connected disability from the U.S. Department of Veterans Affairs as follows:

<u>Disability Rating</u>	<u>Amount of the Exemption of Assessed Valuation</u>
30.0 percent to less than 40.0 percent	\$3,000
40.0 percent to less than 50.0 percent	\$3,500
50.0 percent to less than 60.0 percent	\$4,000
60.0 percent to less than 70.0 percent	\$4,500
Above 70.0 percent	Full exemption

In addition to the amount of exempt assessed valuation for a disabled veteran with a disability rating of at least 30.0 percent but less than 70.0 percent, the bill does not prohibit the disabled veteran to also claim the homestead property tax refund. If a disabled veteran has a service-connected disability rate of at least 70.0 percent or is permanently confined to a wheelchair, then all property taxes on the homestead would be exempted and the disabled veteran would not be eligible for the homestead property tax refund program. The bill would allow a disabled veteran who is 65 years of age to receive homestead property exemption of its assessed value that is equal to the percentage of their disabled veteran's disability rating but would no longer be eligible for the homestead property tax refund program. A surviving spouse of a qualified disabled veteran would be able to continue to be eligible for this new homestead property tax exemption unless the surviving spouse remarries.

Passage of HB 2440 would decrease property tax revenues by exempting certain amounts of a homestead property's assessed valuation for certain retired and disabled veterans. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates this bill would decrease revenues to these two funds by \$360,000 in FY 2023, with \$240,000 from the EBF and \$120,000 from the SIBF. Less property tax revenue would also affect state expenditures for aid to

school districts. To the extent that less property tax revenue would be available from the state's uniform mill levy to fund expenditures for school districts, the state would be required to provide an additional \$4,830,000 in state aid from the State General Fund through the school finance formula in FY 2023. Local governments that levy a property tax would also receive less revenues; however, the amount of reduced property tax revenues was not estimated. The fiscal effect to state revenues during subsequent years would be as follows:

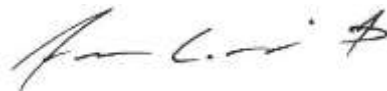
	<u>FY 2024</u>	<u>FY 2025</u>
School District Finance	(\$5,010,000)	(\$5,190,000)
EBF	(250,000)	(260,000)
SIBF	<u>(125,000)</u>	<u>(130,000)</u>
	(\$5,385,000)	(\$5,580,000)

To formulate these estimates, the Department of Revenue reviewed data on disabled veterans from the Kansas Commission on Veterans Affairs. The Department estimates that of the 44,407 veterans in Kansas receiving disability compensation, 27,984 would qualify for this new exemption. The Department was unable to determine the number of surviving spouses who would qualify or those disabled veterans who are permanently confined to a wheelchair.

According to the Department of Revenue, the bill would require a total \$13,338 from the State General Fund in FY 2022 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. In addition, 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 bill would have no fiscal effect on the operations of the Department of Revenue or the Board of Tax Appeals. The League of Kansas Municipalities and the Kansas Association of Counties indicate that the bill has the potential to reduce the amount of local property tax revenues that are used in part to finance local governments. However, they do not have a basis on which to estimate the amount of property taxes that would be exempted to make a precise estimate of the fiscal effect on local governments. Any fiscal effect associated with HB 2440 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Luke Drury, Veterans Affairs
Craig Neuenswander, Education
Lynn Robinson, Department of Revenue
Wendi Stark, League of Municipalities
Jay Hall, Association of Counties