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Steven J. Anderson, CPA, MBA, Director
Division of the Budget
Sam Brownback, Governor

March 13, 2012

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 445 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 445 is respectfully submitted to your committee.

SB 445 would change the Kansas Earned Income Tax Credit from a refundable credit to non-refundable credit beginning in tax year 2012. The bill would also prohibit renters from qualifying for the Homestead Property Tax Refund Program, adjust the deduction schedule for calculating the amount of the refund, and would increase the maximum refund allowed from $700 to $1,200. These changes to the Homestead Property Tax Refund Program would begin in tax year 2012.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	$30,000,000	$30,000,000
Expenditure	--	--	$29,938,800	$29,938,800
FTE Pos.	--	--	(4.00)	(4.00)

The Department of Revenue estimates that SB 445 would increase State General Fund revenues by $30.0 million in FY 2013. The increase in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	$ 21,000	$ --	$ 21,000
Income Taxes:			
Individual	3,065,000	30,000	3,095,000
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	141,000	--	141,000
Total Taxes	$6,322,800	$ 30,000	$6,352,800
Other Revenues:			
Interest	$ 7,400	$ --	$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	51,500	--	51,500
Total Other Revenues	($ 31,400)	$ --	($ 31,400)
Total Receipts	$6,291,400	$ 30,000	$6,321,400

To formulate these estimates, the Department of Revenue reviewed data on the Kansas Earned Income Tax Credit and the Homestead Property Tax Refund Program. The Department estimates that under current law, approximately $90.0 million in Kansas Earned Income Tax Credits will be claimed by taxpayers in tax year 2012. Because approximately $60.0 million of the Kansas Earned Income Tax Credit are estimated to be refunded to taxpayers, changing this tax credit from a refundable credit to a non-refundable credit is estimated to generate approximately $60.0 million in additional income tax receipts in tax year 2012. The Department estimates that eliminating renters from the Homestead Property Tax Refund Program would generate approximately $13.0 million in additional income tax receipts in tax year 2012. Increasing the maximum Homestead Property Tax Refund allowed from $700 to $1,200 and adjusting the deduction schedule for calculating the amount of the refund would increase the amount of Homestead Property Tax Refunds paid to homeowners by approximately $43.0 million in tax year 2012. Therefore, the net fiscal effect of the bill is estimated to increase individual income tax receipts to the State General Fund by $30.0 million in tax year 2012 or FY

2013 ($60.0 million from making the Kansas Earned Income Tax Credit non-refundable plus $13.0 million from eliminating renters from the Homestead Property Tax Refund Program minus $43.0 million from changing the deduction schedule and increasing the maximum refund amount for the Homestead Property Tax Refund Program).

The Department indicates that the bill would reduce State General Fund expenditures by a net total of $61,200 in FY 2013. The bill would create $190,000 in savings by eliminating salaries and wages associated with 4.00 FTE positions that would no longer be needed to administer, process, and track the Homestead Property Tax Refund Program for renters in FY 2013. These savings would be partially offset in FY 2013 by the costs associated with one-time computer programming costs to modify the automated tax system, which are estimated to be $128,800 from the State General Fund. The required programming for this bill by itself (2,360 hours of in-house programming and 2,000 hours of implementation) 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Social Rehabilitation Services (SRS) indicates that the refundable portion of the Earned Income Tax Credit is used as the primary state match for the federal Temporary Assistance for Needy Families (TANF) Program. Eliminating the ability of this tax credit from being refunded to taxpayers would require additional state matching funds devoted to state child welfare and poverty programs through the budget process to count toward the state maintenance of effort requirements and avoid any federal TANF penalties. SRS estimates that the state would have to spend an additional $30.0 million from the State General Fund to keep its state maintenance of effort at required levels.

In sum, the bill would increase revenues by $30.0 million, but would require additional expenditures of $29,938,800 ($30.0 million in additional SRS expenditures minus $61,200 in savings from the Department of Revenue). Any fiscal effect associated with SB 445 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Jackie Aubert, SRS
Steve Neske, Revenue