

March 12, 2020

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2640 by Representative Xu

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2640 is respectfully submitted to your committee.

HB 2640 would establish an income tax credit beginning in tax year 2021 for taxpayers who implement carbon farming on agricultural land. The bill would define carbon farming as an agricultural land management strategy that reduces, sequesters, and mitigates greenhouse gas emissions. The tax credit could not exceed 90.0 percent of a taxpayer's income tax liability when their annual gross earnings are under \$1.0 million and 50.0 percent of a taxpayer's income tax liability when gross earnings are at or above \$1.0 million. The tax credit would apply to the tax year in which the carbon farming was implemented. The Secretary of Agriculture would be required to adopt rules and regulations to implement the carbon farming tax credit, including a method to calculate its economic value.

The Secretary of Agriculture, in consultation with the Secretary of Revenue, would be required to calculate and certify the amount of credit based on the economic value of carbon farming performed by the taxpayer and issue a tax credit certificate. The Secretary of Agriculture, in consultation with the Secretary of Revenue, would also be required to develop educational materials to encourage the implantation of carbon farming, the procurement of certificates of compliance, and the utilization of the United States Department of Agriculture's comet-planner and comet-farm quantification tools. The bill would also require the Secretary of Agriculture to submit an annual report on the implementation and results of the carbon farming tax credit to the House Committee on Agriculture and the Senate Committee on Agriculture and Natural Resources. The provisions of the bill would expire on July 1, 2026.

The Department of Revenue indicates that HB 2640 would reduce State General Fund revenue in tax year 2021 or FY 2022 by establishing a new income tax credit. However, the Department does not have data on carbon farming, including what the amount of the carbon farming tax credit would be or how many taxpayers would claim this new tax credit, to make a precise estimate of the fiscal effect. The Department also indicates that the bill would require \$189,999 from the State General Fund in FY 2021 to implement the bill and to modify the automated tax system. The bill would require the Department to hire at least 1.00 Customer Service Representative FTE position to review and process state returns that include this new tax credit. 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 Department of Agriculture indicates that enactment of the bill would require \$751,622 from the State General Fund in FY 2021 and 5.00 FTE positions, including an economist, statistician, attorney, compliance specialist, and administrative assistant. Of this amount, \$401,622 would be for salaries and wages, \$250,000 would be for one-time contractual services expenditures to create a database, and \$100,000 would be for one-time contractual services expenditures to consult with Kansas State University Research and Extension and other land grant institutions in order to establish carbon tax credit amounts and educational materials. Any fiscal effect associated with HB 2640 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "L. L. Campbell", written in a cursive style.

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Kellen Liebsch, Agriculture