

February 15, 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 2186 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2186 is respectfully submitted to your committee.

HB 2186 would allow a qualifying taxpayer to elect to use a single sales factor apportionment of business income for calculating income taxes. The qualifying taxpayer would be required to have its principal business activity in the following industries: manufacturing, production of electricity, storage of electricity, or involved in certain agricultural activities. The election would be effective for the taxable year of the election and the following nine taxable years. The business electing the single sales factor apportionment would be binding to all members of the unitary group of corporations. The election would be irrevocable unless given permission to terminate the election by the Secretary of Revenue.

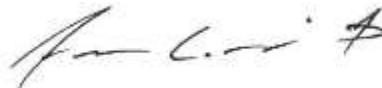
Estimated State Fiscal Effect				
	FY 2021 SGF	FY 2021 All Funds	FY 2022 SGF	FY 2022 All Funds
Revenue	--	--	(\$20,500,000)	(\$20,500,000)
Expenditure	--	--	\$8,500	\$8,500
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2186 would decrease State General Fund revenues by \$20.5 million in FY 2022. The Department indicates that similar results would also occur in future fiscal years. To formulate these estimates, the Department of Revenue reviewed data on the apportionment of business income from the top 600 businesses having at least \$1.0

million in taxable income and found that 199 filers would benefit from making this election to the single sales factor apportionment of business income. The Department estimates that businesses making this election would reduce income taxes by approximately \$20.5 million. Most of these businesses are in the manufacturing industry. The Department indicates that it only captures self-reported North American Industry Classification System (NAICS) codes which may affect the accuracy of the actual NAICS codes for these businesses.

The Department of Revenue indicates that it would require a total \$8,500 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. Any fiscal effect associated with HB 2186 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue