February 25, 2011

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas  66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2206 by Representative Kinzer

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2206 is respectfully submitted to your committee.

HB 2206 would create a non-refundable income tax credit equal to 25.0 percent of the credit claimed against the taxpayer’s federal income tax liability under Section 24 of the federal Internal Revenue Code, which is the Child Tax Credit. The credit would be effective beginning in tax year 2011.

<table>
<thead>
<tr>
<th>Estimated State Fiscal Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Revenue</td>
</tr>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>FTE Pos.</td>
</tr>
</tbody>
</table>

The Department of Revenue estimates that HB 2206 would decrease State General Fund revenues by $56,347,000 in FY 2012. The decrease in revenues and how the November 2, 2010 consensus revenue estimate for FY 2012 would be affected are shown in the following table:
### Effect on FY 2012 Consensus Revenue Estimates

*(Dollars in Thousands)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Carrier</td>
<td>$27,000</td>
<td>$--</td>
<td>$27,000</td>
</tr>
<tr>
<td>Income Taxes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>$2,705,000</td>
<td>$(56,347)</td>
<td>$2,648,653</td>
</tr>
<tr>
<td>Corporate</td>
<td>$275,000</td>
<td>--</td>
<td>$275,000</td>
</tr>
<tr>
<td>Financial Institutions</td>
<td>$21,000</td>
<td>--</td>
<td>$21,000</td>
</tr>
<tr>
<td>Excise Taxes:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail Sales</td>
<td>$2,090,000</td>
<td>--</td>
<td>$2,090,000</td>
</tr>
<tr>
<td>Compensating Use</td>
<td>$295,000</td>
<td>--</td>
<td>$295,000</td>
</tr>
<tr>
<td>Cigarette</td>
<td>$97,000</td>
<td>--</td>
<td>$97,000</td>
</tr>
<tr>
<td>Corporate Franchise</td>
<td>$8,000</td>
<td>--</td>
<td>$8,000</td>
</tr>
<tr>
<td>Severance</td>
<td>$94,300</td>
<td>--</td>
<td>$94,300</td>
</tr>
<tr>
<td>All Other Excise Taxes</td>
<td>$96,400</td>
<td>--</td>
<td>$96,400</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>$127,000</td>
<td>--</td>
<td>$127,000</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>$5,835,700</td>
<td>$(56,347)</td>
<td>$5,779,353</td>
</tr>
<tr>
<td>Other Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$11,800</td>
<td>$--</td>
<td>$11,800</td>
</tr>
<tr>
<td>Transfers</td>
<td>$(93,700)</td>
<td>--</td>
<td>$(93,700)</td>
</tr>
<tr>
<td>Agency Earnings</td>
<td>$56,800</td>
<td>--</td>
<td>$56,800</td>
</tr>
<tr>
<td>Total Other Revenues</td>
<td>$(25,100)</td>
<td>$--</td>
<td>$(25,100)</td>
</tr>
<tr>
<td>Total Receipts</td>
<td>$5,810,600</td>
<td>$(56,347)</td>
<td>$5,754,253</td>
</tr>
</tbody>
</table>

To formulate this estimate, the Department of Revenue reviewed data on Kansas taxpayers that claimed the federal Child Tax Credit. In tax year 2008, approximately 255,000 Kansas taxpayers claimed nearly $336.4 million in federal Child Tax Credits. Assuming the federal credit amount remains the same; a non-refundable Kansas Child Tax Credit equal to 25.0 percent of the federal amount would generate about $84.1 million in total Kansas Child Tax Credits. Since this would be a non-refundable credit, it is estimated that only about 67.0 percent of the total credit amount would be able to be used by taxpayers. The net reduction in income tax receipts would be approximately $56,347,000 ($84.1 x 67.0 percent) in FY 2012.

The Department of Revenue indicates it would require $105,643 from the State General Fund to implement this new tax credit in FY 2012. The Department indicates it would require $50,203 for salary and wages and operational expenses for 1.00 new FTE position to manage the implementation of this new tax credit. This bill would require modifications to the automated tax system. The Department estimates that the bill would require 1,872 hours of contract
programming time at a total cost of $55,440. Any fiscal effect associated with HB 2206 is not reflected in The FY 2012 Governor’s Budget Report.

Sincerely,

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

cc: Steve Neske, Revenue