

March 6, 2012

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

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2756 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2756 is respectfully submitted to your committee.

HB 2756 would create a new income tax credit for individuals who move from a high unemployment county in Kansas to county that is designated as a Rural Opportunity Zone. The bill defines a high employment county as a county with an unemployment rate of at least 5.0 percent as determined by the Secretary of Labor. To qualify for the tax credit, the individual would be required to obtain employment in the Rural Opportunity Zone after July 1, 2012 and prior to January 1, 2016. Individuals would be allowed to move from one Rural Opportunity Zone to another Rural Opportunity Zone and claim the tax credit as long as the taxpayer was domiciled in the previous Rural Opportunity Zone for at least 12 months.

The taxpayer would be allowed to claim the tax credit for no more than three consecutive years following establishment of the taxpayer's domicile in a Rural Opportunity Zone. No tax credits would be allowed if the resident individual's income tax return is not timely filed, the taxpayer is delinquent in filing any return or paying any tax due to the state or any local government, or if the individual does not establish a domicile in a Rural Opportunity Zone prior to January 1, 2016. The tax credit would be available beginning in tax year 2013 and would sunset after tax year 2015.

The Department of Revenue estimates that HB 2756 would have no fiscal effect on State General Fund revenues in FY 2013. The new tax credit would be available beginning in tax year 2013, which is estimated to reduce State General Fund revenues by \$800,000 in FY 2014. The Department of Revenue estimates that the bill would reduce State General Fund revenues by \$2.5 million in FY 2015 and \$4.1 million in FY 2016. These estimates assume continuation of current state income tax rates.

The Honorable Richard Carlson, Chairperson

March 6, 2012

Page 2—2756

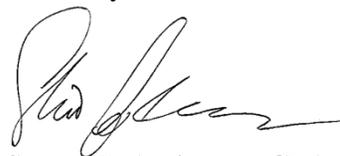
To formulate these estimates, the Department of Revenue reviewed data on the most recent information from the Internal Revenue Service and the U.S. Census Bureau. It is estimated that about 1,232 individual taxpayers from Kansas counties moved to counties designated as a Rural Opportunity Zone. Those taxpayers reported federal adjusted gross income of about \$36.6 million. Assuming an average tax rate of 4.5 percent and also assuming only 50.0 percent of these individuals would meet the requirement of residing in the Rural Opportunity Zone county the entire year in order to qualify for the tax credit, the estimated fiscal effect in FY 2014 would be approximately \$800,000 ($\$36.6 \text{ million} \times 4.5\% \times 50\%$), and would increase to \$2.5 million in FY 2015. The potential cumulative effect on other taxes at the state and local level is not accounted for in this fiscal note.

The Department of Revenue indicates the bill would require \$82,520 from the State General Fund in FY 2014 for administrative costs to implement the bill and to modify the automated tax system. The required programming for this bill by itself (1,474 hours of in-house programming and 1,320 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 Commerce indicates that it is currently responsible for administering the Rural Opportunity Zones Program. The Department indicates that the administrative costs associated with reviewing additional applications from individuals that are proposing to move from a high unemployment county to a Rural Opportunity Zone under the guidelines proposed in the bill would be negligible and could be absorbed within existing staff levels and resources.

The Kansas Department of Labor indicates that the bill would require the Secretary of Labor to designate the high unemployment counties in the state. The Department of Labor indicates that it already compiles data on unemployment rates by county and that this requirement will have no fiscal effect on its operations. Any fiscal effect associated with HB 2756 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,



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

cc: Steve Neske, Revenue
Jason Glasrud, Commerce
Melissa Wangemann, KAC
Kathie Sparks, Labor