

March 31, 2015

The Honorable Marvin Kleeb, Chairperson  
House Committee on Taxation  
Statehouse, Room 185-N  
Topeka, Kansas 66612

Dear Representative Kleeb:

**SUBJECT:** Fiscal Note for HB 2379 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2379 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. HB 2379 would provide a subtraction modification from federal adjusted gross income for the amount of net gain from the sale of certain business assets. The bill would become effective in tax year 2015.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$73,400,000)	(\$73,400,000)
Expenditure	--	--	\$62,940	\$62,940
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2379 would decrease State General Fund revenues by \$73.4 million FY 2016. The decrease in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates  
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	(73,400)	2,226,600
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	--	2,270,000
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	(\$ 73,400)	\$5,897,200
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	(\$ 73,400)	\$5,738,000

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	(\$59,500,000)	(\$62,400,000)	(\$65,600,000)	(\$68,800,000)

To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service (IRS) on net gains from the sale of certain business assets. Data from the IRS indicates that net gains reported on Form 4797 from the sale of business assets represent about 28.0 percent of all net capital gains reported. Kansas net capital gains in tax year 2012 were \$4.2 billion. Assuming that 28.0 percent of Kansas net capital gains are attributed to net gains from the sale of business assets and assuming an average tax rate of 4.6 percent, the estimated reduction in tax liability would be approximately \$55.8 million in tax year 2015. Because the tax year and fiscal year do not cover the same months, the bill is estimated to decrease individual income tax receipts by \$73.4 million in FY 2016 and \$59.5 million in FY 2017.

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The Department of Revenue indicates that it would require \$62,940 from the State General Fund in FY 2016 to implement the bill, including the costs associated with creating forms and instructions 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. 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. Any fiscal effect associated with HB 2379 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,  
Director of the Budget

cc: Jack Smith, Department of Revenue