

May 5, 2015

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

Dear Representative Kleebl:

SUBJECT: Fiscal Note for HB 2425 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2425 is respectfully submitted to your committee.

Under current law, individual income tax rates are set at 2.70 percent for income under \$15,000 (\$30,000 for married filing jointly) and at 4.6 percent for income \$15,000 and over (\$30,000 for married filing jointly) in tax year 2015 with additional individual income tax rate reductions in future tax years. HB 2425 would set individual income tax rates at 2.50 percent for income under \$15,000 (\$30,000 for married filing jointly) and at 4.8 percent for income \$15,000 and over (\$30,000 for married filing jointly) beginning in tax year 2015 and for each future tax year. The bill would remove the automatic income tax rate reduction procedure that is set to begin in tax year 2019 that reduces income tax rates based on the amount of actual State General Fund tax receipts collected in the previous fiscal year.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	\$79,100,000	\$79,100,000
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2425 would increase State General Fund revenues by \$79.1 million in FY 2016. The increase in revenues and how the April 20, 2015 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 (April 20, 2015)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 11,000	\$ --	\$ 11,000
Income Taxes:			
Individual	2,300,000	79,100	2,379,100
Corporate	440,000	--	440,000
Financial Institutions	44,000	--	44,000
Excise Taxes:			
Retail Sales	2,240,000	--	2,240,000
Compensating Use	370,000	--	370,000
Cigarette	88,000	--	88,000
Severance	73,800	--	73,800
All Other Excise Taxes	113,700	--	113,700
Other Taxes	<u>190,500</u>	<u>--</u>	<u>190,500</u>
Total Taxes	\$5,871,000	\$ 79,100	\$5,950,100
Other Revenues:			
Interest	\$ 17,800	\$ --	\$ 17,500
Transfers	(232,680)	--	(232,680)
Agency Earnings	<u>57,100</u>	<u>--</u>	<u>57,100</u>
Total Other Revenues	(\$ 157,780)	\$ --	(\$ 157,780)
Total Receipts	\$5,713,220	\$ 79,100	\$5,792,320

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	\$129,100,000	\$263,400,000	\$532,600,000	\$559,300,000

To formulate these estimates, the Department of Revenue reviewed data on individual income tax rates and collections. The Department indicates that the administrative cost to implement the bill and to modify the automated tax system would be negligible and could be absorbed within existing resources.

The Department of Administration indicates that adjusting state income tax rates has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses,

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finer, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are decreased, the amount available for possible debt setoff is also reduced. However, the Department is unable to make a precise estimate of the amount of debt setoff that will no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2425 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, KDOR
Colleen Becker, DofA