

January 29, 2019

The Honorable Sean Tarwater, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 151-S
Topeka, Kansas 66612

Dear Representative Tarwater:

SUBJECT: Fiscal Note for HB 2044 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2044 is respectfully submitted to your committee.

HB 2044 would create a new non-refundable income tax credit equal to 15.0 percent of the amount of expenditures for goods and services purchased from a qualified vendor beginning in tax year 2019 through tax year 2023. The bill defines “qualified vendor” as a nonprofit entity that provides employment to individuals who are blind or severely disabled or is declared to be a certified business by the Department of Administration. A certified business is required to do most of its business primarily in Kansas or substantially all of its production in Kansas; employ at least 30.0 percent of its employees who are individuals with disabilities and reside in Kansas; offer to contribute at least 75.0 percent of the premium cost for individual health insurance coverage for each employee; and does not employ individuals under a certificate issued by the United States Secretary of Labor. The bill would allow a taxpayer to claim up to \$500,000 in tax credits per qualified vendor in each tax year and the maximum amount of tax credits would be capped at \$5.0 million for all tax years that the income tax credit remains in effect. Any unused tax credits would be allowed to be carried forward for up to four tax years.

The Secretary of Commerce would be responsible to certify qualified vendors and to certify the amount of goods and services purchased by a taxpayer from qualified vendors on an annual basis. The Department of Commerce would have the authority to write rules and regulations to implement the bill. The bill would require the Secretary of the Department of Revenue to report to the House Committee on Taxation and the Senate Committee on Assessment and Taxation on or before February 1, 2021, 2022, and 2023, concerning the implementation and effectiveness of the new income tax credit.

Estimated State Fiscal Effect				
	FY 2019 SGF	FY 2019 All Funds	FY 2020 SGF	FY 2020 All Funds
Revenue	--	--	(\$1,700,000)	(\$1,700,000)
Expenditure	--	--	\$887,370	\$887,370
FTE Pos.	--	--	--	0.50

The Department of Revenue does not have data on how many taxpayers would purchase goods and services from a qualified vendor, including from certified businesses, to provide an accurate estimate of the fiscal effect of HB 2044. The Department indicates that the State of Kansas spends approximately \$11.0 million per year on goods and services from qualified vendors under the State Use Program. The State Use Program requires state agencies and school districts to purchase goods and services from the State Use Catalog, which includes products and services manufactured and offered by blind and severely disabled Kansans. The Department indicates that if taxpayers make approximately \$11.3 million in purchases from qualified vendors, then approximately \$1.7 million in tax credits would be earned, which has the potential to reduce State General Fund revenues by that same amount each year beginning in FY 2020 through FY 2022.

The Department of Revenue indicates that it would require \$845,245 from the State General Fund in FY 2020 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 and outside contract programmer services. 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, additional expenditures for outside contract programmer services beyond the Department's estimate may be required.

The Department of Commerce indicates that it would require \$42,125 from the State General Fund in FY 2020 for administrative costs to implement this new program. This estimate includes the salaries and wages and operating costs for a new 0.50 FTE position. This new program would require the Department to verify the amount of goods and services purchased by a taxpayer from qualified vendors on an annual basis and to certify qualified vendors. Currently the Office of Procurement and Contracts in the Department of Administration determines the qualified vendors. The bill could have a fiscal effect for the Department of Administration, if the Office of Procurement and Contracts is asked to assist the Department of Commerce by providing data regarding qualified vendors. Any fiscal effect associated with HB 2044 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Sherry Rentfro, Commerce
Colleen Becker, Department of Administration