

January 27, 2020

The Honorable Steven Johnson, Chairperson
House Committee on Taxation
Statehouse, Room 185A-N
Topeka, Kansas 66612

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2436 by Representative Rhiley

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2436 is respectfully submitted to your committee.

Under current law, the Department of Revenue or any taxing authority in the state is authorized to charge an interest rate for the underpayment of taxes and is also required to pay the taxpayer interest for certain overpayment of taxes at an interest rate of 6.0 percent in calendar year 2019. The interest rate is determined by the current federal Internal Revenue Service interest rate, plus 1.0 percent if computed annually. HB 2436 would change the interest rate applied to underpayment or overpayment of taxes to 1.0 percent per year beginning on July 1, 2020. The bill would also apply the 1.0 percent interest rate retroactively to underpayment or overpayments of \$10,000 or more in property taxes beginning on January 1, 2018. The current interest rate charged for underpayment or overpayments of \$10,000 or more in property taxes is the greater of the federal Internal Revenue Service interest rate or 10.0 percent.

The Department of Revenue estimates that HB 2436 would decrease revenues by approximately \$23.2 million in FY 2021. Most of the reduction in interest earnings on delinquent taxes would be applied to the State General Fund; however, the bill also has the potential to reduce interest earnings from delinquent taxes applied to other tax revenue distributions, such as the State Highway Fund or local governments. To formulate this estimate, the Department of Revenue reviewed data on underpayment or overpayments of taxes in FY 2019. The Department indicated that the net interest amount collected in FY 2019 was approximately \$27.8 million (\$28.1 million in interest collected from underpayment of taxes minus \$300,000 in interest paid for certain refunds). Assuming similar amounts in FY 2021, reducing the interest rate from 6.0 percent to 1.0 percent would reduce the net interest amount to \$4.6 million, which is a reduction of approximately \$23.2 million.

The Department indicates that the bill would require \$9,380 from the State General Fund in FY 2021 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. In addition, 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 current budget may be required.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill has the potential to decrease revenues from interest earnings that are used in part to finance local governments. However, it is unknown if the lower interest rate charged would increase the rate of delinquent property taxes or allow taxpayers to pay off their delinquent taxes before the property is sold at a tax sale. Any fiscal effect associated with HB 2436 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink that reads "L. L. Campbell". The signature is fluid and cursive, with the first name "L." and last name "Campbell" clearly visible.

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Trey Cocking, League of Municipalities
Jay Hall, Association of Counties
Dale Dennis, Education