



February 17, 2020

REVISED

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

Dear Representative Johnson:

SUBJECT: Revised Fiscal Note for HB 2538 by House Committee on Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2538 is respectfully submitted to your committee.

HB 2538 would increase the standard deduction for single individual taxpayers from \$3,000 to \$4,000, married filing status from \$7,500 to \$8,000, and head of household from \$5,500 to \$6,000 in tax year 2020. Beginning in tax year 2021, the standard deduction would adjust each tax year with the cost-of-living adjustment as determined by the federal Internal Revenue Service. The bill also removes outdated standard deduction language from previous tax years.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2020 SGF | FY 2020 All Funds | FY 2021 SGF | FY 2021 All Funds |
| Revenue | -- | -- | -- | (\$52,400,000) |
| Expenditure | -- | -- | -- | \$20,845 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that HB 2538 would decrease State General Fund revenues by \$52.4 million in FY 2021. The fiscal effect to state revenues during subsequent years would be as follows:

| | <u>FY 2022</u> | <u>FY 2023</u> |
|--------------------|----------------|----------------|
| State General Fund | (\$45,800,000) | (\$52,700,000) |

To formulate these estimates, the Department of Revenue simulated this tax policy change based on actual tax return data from tax year 2018. The estimate for FY 2021 includes 100.0 percent of tax year 2020 tax liability and 30.0 percent of tax year 2021 tax liability. The estimate for FY 2022 includes 70.0 percent of tax year 2021 tax liability and 30.0 percent of tax year 2022 tax liability. The Department of Revenue indicates that State General Fund estimates for FY 2021 are based on the November 2019 Consensus Revenue Estimate. The Department estimates that the number of tax returns would increase by 1.0 percent each year and the annual cost-of-living adjustment would increase by 2.0 percent each year.

The Department indicates that the bill would require \$20,845 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 Department of Administration indicates that adjusting state income tax collections 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, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to make an estimate of the amount of additional debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2538 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 and last names clearly legible.

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jeff Scannell, Department of Administration