

March 28, 2022

The Honorable Adam Smith, Chairperson
House Committee on Taxation
Statehouse, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2735 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2735 is respectfully submitted to your committee.

HB 2735 would enact the Right-to-Start Act related to tax incentives for new businesses beginning in tax year 2023. The first \$100,000 of new business income included in a taxpayer's Kansas adjusted gross income would be reduced by 20.0 percent for the first three tax years in which the taxpayer's business is in operation. For corporations, the tax rate would be 3.0 percent for the first \$100,000 of income for the first three tax years that the eligible new corporation is in business.

The Secretary of Administration would be required to file a report with the Legislature on or before June 30, 2024, and annually thereafter, that includes the following:

1. The number of contracts awarded to businesses that have been in operation for less than three years;
2. The percentage of the number of contracts awarded to businesses that have been in operation for less than three years compared to the total number of contracts awarded;
3. The total dollar amount of all contracts awarded to businesses that have been in operation for less than three years; and
4. The percentage of the total dollar amount of contracts awarded to businesses that have been in operation for less than three years compared to the total dollar amount of contracts awarded.

The bill establishes the Office of Entrepreneurship within the Department of Commerce. The Office would employ personnel to promote policies and initiatives to support the growth of entrepreneurship in the state; and work with stakeholders and communities to provide information and technical support to entrepreneurs. On or before January 1, 2024, the Secretary of Administration, in conjunction with the Office of Entrepreneurship, would produce and file a report with the Legislature that includes recommendations on improving access and resources for new Kansas businesses that have been in operation for less than three years.

The Department of Revenue indicates HB 2735 would decrease State General Fund revenues by unknown amounts beginning in tax year 2023 or FY 2024. The Department does not have the necessary data on new businesses to estimate the impacts of potential new businesses. The bill would require that a new business only be new to Kansas, not necessary to be new everywhere. A long-time business that expands into Kansas would be considered a new business under this definition, as well as long-time Kansas developer that creates a new partnership for each project. Tracking the new Kansas partnership income through levels of ownerships could be difficult for the individual and corporate partner. Additionally, the bill is unclear if the new corporate tax of 3.0 percent for the first \$100,000 is categorized as normal or surtax.

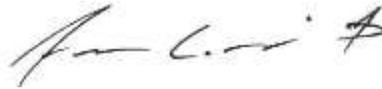
The Department of Revenue indicates that it would require a total \$262,923 from the State General Fund in FY 2023 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 2.00 new FTE positions to answer questions from taxpayers. The Department estimates that ongoing expenses for salaries and wages for the 2.00 FTE positions and overhead expenses would total \$121,231 from the State General Fund in FY 2024. 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 bill would require \$55,000 in FY 2022 from the State General Fund to begin work on implementing the bill. The Department estimates that \$30,000 would be used for salaries and wages to fund 2.00 new FTE positions for the last two months of the fiscal year. The new positions would set up a system that tracks and manages records related to tracking contract awards in relation to the years of operation of new businesses. An evaluation would be required, at a cost of an estimated \$25,000, to determine how to implement modifications or system configurations to identify business by age of operation. For FY 2023, the Department would require \$225,000 from the State General Fund, including \$180,000 for the ongoing costs for the salaries and wages for the 2.00 FTE positions and \$45,000 for system maintenance fees.

The Department of Commerce indicates that bill would require \$89,633 from the State General Fund in FY 2023 to implement the bill. The bill would require the Department hire 1.00 new FTE position to manage the new Office of Entrepreneurship. The position would promote

policies and initiatives to support entrepreneurship growth within Kansas and aid in preparing the required reports to the Legislature. Any fiscal effect associated with HB 2735 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", with a stylized flourish at the end.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Sherry Rentfro, Department of Commerce
Celeste Chaney-Tucker, Department of Administration