

January 25, 2024

The Honorable Sean Tarwater, Chairperson  
House Committee on Commerce, Labor and Economic Development  
300 SW 10th Avenue, Room 346-S  
Topeka, Kansas 66612

Dear Representative Tarwater:

**SUBJECT:** Fiscal Note for HB 2544 by House Committee on Commerce, Labor and Economic Development

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2544 is respectfully submitted to your committee.

HB 2544 would create a new income tax credit for qualified employees that are current members in good standing of the Kansas Army or Air National Guard that work full time for a qualified employer beginning in tax year 2025 through tax year 2035. The bill would allow a qualified employee to claim a \$5,000 income tax credit that would be deducted from the taxpayer's income tax liability for the taxable year in which the taxpayer is a qualified employee. The tax credit would not be refundable and may not be carried forward. A qualified employer means a sole proprietorship, general partnership, limited partnership, limited liability company, corporation, other legally recognized business entity or public entity.

The qualified employer would also be allowed to claim a non-refundable income tax credit for compensation paid to a qualified employee beginning in tax year 2025 through tax year 2035. The amount of the tax credit would be 10.0 percent of the compensation paid to a qualified employee. The tax credit amount could not exceed \$15,000 annually for each qualified employee. The tax credit could not be carried forward into future tax years.

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
<b>Expenditures</b>			
State General Fund	--	\$83,788	--
Fee Fund(s)	--	1,000	--
Federal Fund	--	--	--
Total Expenditures	--	\$84,788	--
<b>Revenues</b>			
State General Fund	--	--	(\$21,900,000)
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Revenues	--	--	(\$21,900,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2544 would decrease State General Fund revenues by \$21.9 million in FY 2026 and by \$22.1 million in FY 2027. The estimated fiscal effect by revenue source would be as follows:

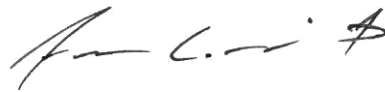
	<u>FY 2026</u>	<u>FY 2027</u>
Corporate Income Tax	(\$12,400,000)	(\$12,500,000)
Individual Income Tax	<u>(9,500,000)</u>	<u>(9,600,000)</u>
	(\$21,900,000)	(\$22,100,000)

To formulate these estimates, the Department of Revenue reviewed data on from the Defense Manpower Data Center’s Reporting System that shows Kansas having a combined 6,441 Army National Guard and Air National Guard Members. Data shows that at least 87.0 percent of Guard Members integrate military service with civilian employment. The fiscal note was developed using an average civilian salary of \$65,000 per year based on age demographics of National Guard Members. The bill would allow approximately \$36.4 million in corporate income tax credits and \$28.0 million in individual tax credits to be earned per tax year; however, only one third of those tax credits are estimated to be claimed against the tax liability of the taxpayer.

The Department indicates that the bill would require \$83,788 from the State General Fund in FY 2025 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 Insurance Department indicates that the bill would also allow insurance companies to claim the new qualified employer tax credit. If insurance companies claim this tax credit, then it would reduce insurance premiums taxes collections that are distributed to the Start General Fund (99.0 percent) and the Insurance Department Service Regulation Fund (1.0 percent). The Insurance Department indicates the computer programming costs to allow the processing of insurance premium tax returns with this new tax credit would cost approximately \$1,000 from the Insurance Department Service Regulation Fund in FY 2025. Any fiscal effect associated with HB 2544 is not reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,

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

Adam C. Proffitt  
Director of the Budget

cc: Lynn Robinson, Department of Revenue  
Bobbi Mariani, Insurance Department