

April 27, 2016

The Honorable Marvin Kleeb, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2669 by Representative Whipple, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2669 is respectfully submitted to your committee.

HB 2669 would create the Food Sales Tax Refund Act and repeal the food sales tax credit beginning in tax year 2016. The bill provides a set refund amount for sales tax paid on food for taxpayers who are Kansas residents the entire year and whose household income is \$36,700 or less. In order to qualify for the food sales tax refund, taxpayers would be required to be 55 years of age or older; totally and permanently disabled or blind; or have at least one dependent under the age of 18 living with them the entire year. To calculate the amount of the food sales tax refund, taxpayers with qualifying income of \$18,350 or less would multiply the number of exemptions by \$94, and taxpayers with qualifying income of \$18,351 to \$36,700 would multiply the number of exemptions by \$47.

Estimated State Fiscal Effect				
	FY 2016 SGF	FY 2016 All Funds	FY 2017 SGF	FY 2017 All Funds
Revenue	--	--	(\$50,000,000)	(\$50,000,000)
Expenditure	--	--	\$128,489	\$128,489
FTE Pos.	--	--	--	1.00

The Department of Revenue estimates that HB 2669 would decrease State General Fund revenues by \$50.0 million in FY 2017. The decrease in revenues and how the April 20, 2016 consensus revenue estimate for FY 2017 would be affected are shown in the following table:

Effect on FY 2017 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 20, 2016)	Change in Revenue FY 2017	Proposed Adjusted CRE FY 2017
Income Taxes:			
Individual	\$2,377,000	(\$ 50,000)	\$2,327,000
Corporate	396,000	--	396,000
Financial Institutions	40,000	--	40,000
Excise Taxes:			
Retail Sales	2,350,000	--	2,350,000
Compensating Use	405,000	--	405,000
Cigarette	133,000	--	133,000
Severance	33,900	--	33,900
All Other Excise Taxes	118,400	--	118,400
Other Taxes	<u>185,900</u>	<u>--</u>	<u>185,900</u>
Total Taxes	\$6,039,200	(\$ 50,000)	\$5,989,200
Other Revenues:			
Interest	\$ 13,400	\$ --	\$ 13,400
Transfers	56,600	--	56,600
Agency Earnings	<u>41,800</u>	<u>--</u>	<u>49,000</u>
Total Other Revenues	\$ 111,800	\$ --	\$ 118,800
Total Receipts	\$6,151,000	(\$ 50,000)	\$6,101,000

The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>
State General Fund	(\$50,000,000)	(\$50,000,000)	(\$50,000,000)	(\$50,000,000)

To formulate these estimates, the Department of Revenue reviewed data on the Food Sales Tax Refund Program that was repealed after tax year 2012. The Department indicates that approximately \$60.0 million in food sales tax refund was claimed in tax year 2012 and similar results would be expected in tax year 2016 and in future tax years under the provisions of the bill. Under current law, taxpayers are estimated to claim approximately \$10.0 million in food sales income tax credits in tax year 2016 and in future tax years. Therefore, the bill is estimated to reduce State General Fund revenues by \$50.0 million in tax year 2016 or FY 2017 (\$60.0 million in food sales tax refunds minus \$10.0 million from the repeal of the food sales income tax credit).

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The Department of Revenue indicates the bill would require \$128,489 from the State General Fund in FY 2017 to implement the bill and to modify and test the automated tax system. The bill would require 1.00 new FTE Customer Service Representative position in FY 2017 to administer this new tax refund program. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. 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, expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2669 is not reflected in *The FY 2017 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, Department of Revenue
Jackie Aubert, Children & Families
Colleen Becker, Department of Administration