

*Revised*  
*SESSION OF 2010*

**SUPPLEMENTAL NOTE ON SENATE  
SUBSTITUTE FOR HOUSE BILL NO. 2360**

As Amended by Senate Committee of the Whole

**Brief\***

Senate Sub. for HB 2360, as amended, would enact a state sales tax increase, amend the Kansas Taxpayer Transparency Act, expand the food sales tax rebate program, and expand the state earned income tax credit (EITC) program.

**Sales and Use Tax Provisions**

The state sales and compensating use tax rate would be increased from 5.3 to 6.3 percent, effective July 1, 2010. A grandfather clause would provide that if contractors had entered into written binding contracts prior to May 1 for the original construction, reconstruction, restoration, remodeling, renovation, repair or replacement of a building, facility or residential structure, bridge or highway, the 5.3 percent rate would remain applicable to such contracts if proof is provided to the Department of Revenue prior to July 10.

The rate subsequently would be reduced to 5.7 percent on July 1, 2013. Disposition of revenue provisions generally would be adjusted to provide the State Highway Fund (SHF) with an estimated \$20.427 million of the additional revenue in FY 2011; and \$21 million in each of FY 2012-2013; and all of the additional revenue above 5.3 percent once the rate returns to the 5.7 percent level. The balance of the additional receipts would be deposited in the State General Fund (SGF), except for

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

a small portion attributable to utility purchases within an intermodal facility district. Such receipts would be distributed temporarily to the SHF, but then could be transferred by the Secretary of Transportation to a new rail service improvement fund.

### **Income Tax Provisions**

The food sales tax rebate program, which is administered through the income tax as a credit, would be expanded such that the income eligibility ceiling would be increased from the current \$31,900 to \$35,000 beginning in tax year 2010; the per capita refund amounts would be increased from \$41 to \$45 in the upper-income tier of the program, and from \$84 to \$90 in the lower-income tier.

A second income tax provision would provide that the Kansas EITC be increased from the current level of 17 percent of the federal EITC to 18 percent for tax years 2010-2012. The state EITC increase would return to 17 percent of the federal credit in tax year 2013.

### **Taxpayer Transparency**

Finally, the Kansas Taxpayer Transparency Act would be amended to require the Secretary of Administration to include tax expenditure information provided by the Department of Revenue in addition to other information currently required to be provided on a searchable website pursuant to KSA 2009 Supp. 74-72,123.

### **Background**

The original HB 2360 from the 2009 Session would have revised existing law concerning the state budget process by accelerating the submission date of the *Governor's Budget Report*. The Senate Ways and Means Committee on April 30,

2010, voted to remove the bill's original provisions, insert a number of revenue enhancement and food sales tax rebate provisions, and recommend that a substitute bill be created. On May 3, the Senate Ways and Means Committee subsequently amended that version of the bill to eliminate a number of cigarette and tobacco products tax provisions, change the effective date of the sales tax increase, and further enhance the food sales tax rebate program.

The Senate Committee of the Whole on May 6 amended the bill to remove the proposed disallowance of the state income tax deduction for certain profits from qualified production activities; add the grandfather clause relative to the sales tax rate increase; insert the taxpayer transparency provision; and add the provisions relating to the temporary expansion of the state EITC.

The Department of Revenue subsequently amended the fiscal note for the grandfather clause on May 7.

The table on the next page summarizes the estimated fiscal note through FY 2015:

**FISCAL IMPACT - SENATE SUBSTITUTE FOR HOUSE BILL 2360 as Amended by the Senate Committee of the Whole**

(\$ in millions)

**Sales/Use Tax Increase:**

Increase Sales/Use Tax Rate from 5.3% to 6.3% on 7/1/10; Rate falls to 5.7% on 7/1/13; State Highway Fund receives \$19.3 million in FY 2011, and \$21.0 million for FY 2012 and FY 2013. State Highway Fund gets all of excess above 5.3% beginning in FY 2014.

State General Fund Diversion of Sales Tax Revenue for Intermodal

Expand Food Sales Tax Rebate Program to \$35,000 and Increase Refund Amounts to \$45/\$90

Expand Earned Income Tax Credit (EITC) from 17 to 18 Percent of Federal EITC

	State General Fund	State Highway Fund	Total	State General Fund	State General Fund	State General Fund	Total State General Fund	Total State Highway Fund	Grand Total All Funds
FY 2011	\$ 318.659	\$ 20.427	\$ 339.086	\$ (0.023)	\$ (10.900)	\$ (4.100)	\$ 303.636	\$ 20.427	\$ 324.063
FY 2012	367.504	21.000	388.504	(0.083)	(11.445)	(3.900)	352.076	21.000	373.076
FY 2013	381.102	21.000	402.102	(0.208)	(12.017)	(4.000)	364.877	21.000	385.877
FY 2014	29.399	171.967	201.366	(0.387)	(12.618)	0.000	16.394	171.967	188.361
FY 2015	0.000	189.526	189.526	(0.538)	(13.249)	0.000	(13.787)	189.526	175.739
5-yr total	\$ 1,096.664	\$ 423.920	\$ 1,520.584	\$ (1.239)	\$ (60.229)	\$ (12.000)	\$ 1,023.196	\$ 423.920	\$ 1,447.116