

February 6, 2023

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
300 SW 10th Avenue, Room 548-S
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 81 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 81 is respectfully submitted to your committee.

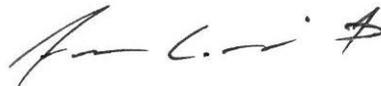
Calculations for Kansas income taxes are based on Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the federal adjusted gross income. SB 81 would allow the amount of disallowed federal Work Opportunity Tax Credits to be subtracted from income for Kansas income tax purposes. Additionally, the amount of disallowed federal Employee Retention Credits could be subtracted from income for Kansas income tax purposes beginning in tax year 2020. The subtraction modifications for the Work Opportunity Tax Credit and the Employee Retention Credit disallowances would be limited to 25.0 percent of the amount of disallowances.

| Estimated State Fiscal Effect | | | | |
|-------------------------------|----------------|----------------------|----------------|----------------------|
| | FY 2023 SGF | FY 2023 All Funds | FY 2024 SGF | FY 2024 All Funds |
| Revenue | -- | -- | (\$7,000,000) | (\$7,000,000) |
| Expenditure | -- | -- | -- | -- |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that SB 81 would decrease State General Fund revenues by \$7.0 million in FY 2024, \$2.5 million in FY 2025, and \$1,125,000 in FY 2026. To formulate these estimates, the Department of Revenue reviewed data on the Work Opportunity Tax Credit and the Employee Retention Credit from the Congressional Budget Office and the

federal Joint Committee on Taxation. The federal impact of the Employee Retention Credit is estimated to be \$85.0 billion and assuming Kansas represents approximately 1.0 percent of the federal impact, the Kansas employers are estimated to claim \$850.0 million in federal Employee Retention Credits. Because the bill limits the subtraction modification to 25.0 percent of the disallowance, only \$212.5 million of the disallowances could be claimed. Using an average tax rate of 5.0 percent, the impact to Kansas tax liability would be a reduction of \$10,625,000 that would be spread over three fiscal years. The Department indicates that the bill would have no fiscal effect on its operations. Any fiscal effect associated with SB 81 is not reflected in *The FY 2024 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