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Adam C. Proffitt, Director

Laura Kelly, Governor

March 3, 2025

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2318 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2318 is respectfully submitted to your committee.

HB 2318 would create a procedure to allow individual and corporation income tax rates to decrease in future tax years. On August 15, 2025, and every August 15 thereafter, the Director of the Budget, in consultation with the Director of Legislative Research, would certify to the Secretary of Revenue the amount of actual tax revenues to the State General Fund from the prior year that is in excess of the inflation adjusted base year revenues. The Secretary of Revenue would be required to compute and publish the individual income tax rate reductions that would decrease receipts by the certified amount rounded down to the nearest 0.01 percent, and these rates would go into effect in the next tax year. Annual income tax rate reductions would continue until the individual income tax rate is reduced to 4.5 percent and then the same procedure would apply to corporate income tax rates until the combined normal and surtax rate is reduced to 4.5 percent. Once made, any rate reduction would remain in effect unless further reduced, and lower tax receipts would not trigger an automatic rate increase.

The Department of Revenue indicates HB 2318 would not likely trigger a rate reduction in tax year 2025 as the estimate of FY 2025 tax revenues to the State General Fund is not estimated to be in excess of the inflation adjusted base year revenues. The bill has the potential to reduce State General Fund tax revenues by unknown amounts in future tax years. Any other legislative changes or unforeseen economic changes impacting tax revenue, paying tax obligation earlier than normal, or changing the due date on when taxes are required to be paid would have the potential to trigger a future rate reduction.

The Department of Revenue indicates that the bill would require $4,000 from the State General Fund in FY 2026 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 Department of Administration indicates that adjusting state income tax collections has the potential to have a fiscal effect on the amount of revenue collected from its debt setoff program. This program intercepts individual income tax refunds and homestead tax refunds and applies those amounts to debts owed to state agencies, municipalities, district courts, and state agencies in other states. Debts include, but are not limited to child support, taxes, educational expenses, fines, services provided to the debtor, and court ordered restitution. As the dollar amounts of refunds are increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to make a precise estimate of the amount of debts setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2318 is not reflected in *The FY 2026 Governor's Budget Report*.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Samir Arif, Department of Administration