



February 26, 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 2385 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2385 is respectfully submitted to your committee.

HB 2385 would authorize cities and counties to propose an earnings tax for nonresidents who work within the city or county. The tax rate would be capped at 1.0 percent per year. The bill would require the governing body of a city or county to submit a proposition to the electorate for approval. If the proposal is approved by a majority of the electors, the earnings tax could be levied. The question would be resubmitted to the electors every ten years to determine if the earnings tax should continue.

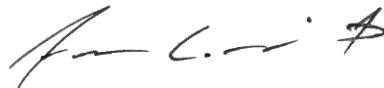
The revenue generated from the earnings tax levied by a city would be pledged for infrastructure purposes, with at least 50.0 percent used to reduce the amount of revenue needed from property taxes. The revenue generated from a county earnings tax would be pledged for general county purposes, with at least 50.0 percent credited to reduce property tax revenues. The bill would provide for certain exemptions and deductions against the earnings tax, such as for individuals exempt from state income tax. It would also allow credits for earnings tax paid to another jurisdiction and require public and private employers to deduct and remit the earnings taxes to the relevant city or county.

Employers would be allowed to deduct and retain 1.5 percent of the total amount of earnings tax collected as a fee to compensate the employer for collecting this tax; however, the city would be allowed to reduce, eliminate, or reimpose this fee by ordinance. The State of Kansas, as an employer in any city, would be allowed to deduct 3.0 percent of the total amount of earnings tax collected if the city earnings tax is less than 1.0 percent, and would be allowed to deduct 1.5

percent of the total amount of earnings tax collected if the city earnings tax is 1.0 percent. The city would be allowed to request that employers submit a list of all employees residing within the city on a yearly basis.

The Department of Revenue indicates the bill would have no fiscal effect on state tax revenues. The League of Kansas Municipalities and the Kansas Association of Counties indicate the bill would allow local governments to raise revenue for infrastructure purposes and property tax relief through an earnings tax if approved by the voters in that locality. A precise estimate of the effect to local revenues is unavailable, as it is unknown how many local governments would request an election to impose an earnings tax or what the amount of the earnings tax would be.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", followed by a stylized flourish or symbol.

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jay Hall, Kansas Association of Counties
Wendi Stark, League of Kansas Municipalities