

March 20, 2012

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 457 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 457 is respectfully submitted to your committee.

SB 457 would allow a business that relocates ten or more employees to Kansas to elect to use a single sales factor apportionment of business income for calculating income taxes. The election may be made only once and would be made on or before the last day of the taxable year of the election, and would be effective for the taxable year of the election and the following nine taxable years. The business electing the single sales factor apportionment would not be eligible for the High Performance Incentive Program Tax Credit or the Promoting Employment Across Kansas (PEAK) Program.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$12,000,000)	(\$12,000,000)
Expenditure	--	--	\$79,320	\$79,320
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 457 would decrease State General Fund revenues by \$12.0 million in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,065,000	--	3,065,000
Corporate	240,000	(12,000)	228,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	<u>141,000</u>	<u>--</u>	<u>141,000</u>
Total Taxes	\$6,322,800	(\$ 12,000)	\$6,310,800
Other Revenues:			
Interest	\$ 7,400	\$ --	\$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	<u>51,500</u>	<u>--</u>	<u>51,500</u>
Total Other Revenues	(\$ 31,400)	\$ --	(\$ 31,400)
Total Receipts	\$6,291,400	(\$ 12,000)	\$6,279,400

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

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
State General Fund	(\$14,000,000)	(\$16,000,000)	(\$18,000,000)	(\$20,000,000)

To formulate these estimates, the Department of Revenue reviewed data on the apportionment of business income. Under current law, a three factor apportionment formula is used, which includes sales, property, and payroll. The bill would reduce corporate income tax receipts by allowing qualifying businesses to use a single sales factor for the apportionment of business income. The Department assumes that businesses would interpret the optional single sales factor apportionment election as applying to new businesses that relocate to Kansas and to businesses that are already located in Kansas that relocate additional operations to the state.

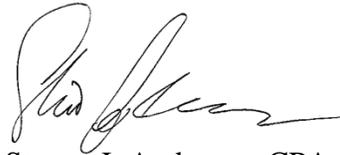
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The Department of Revenue indicates the bill would require \$79,320 from the State General Fund in FY 2013 for administrative costs to update publications and to modify the automated tax system. The required programming for this bill by itself (1,844 hours of in-house programming and 800 hours of implementation) 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 SB 457 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue