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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

April 3, 2013

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 240 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following fiscal note concerning SB 240 is respectfully submitted to your committee.

SB 240 would reduce the corporate income surtax from 3.0 percent to 2.0 percent for tax year 2014 and each future tax year. The bill would remove the federal net operating loss addback modification to federal adjusted gross income and the deduction for Kansas net operating losses. The bill would eliminate the following tax credits for corporate income tax filers in tax year 2014 and each future tax year:

1. Center for Entrepreneurship tax credit;
2. Community Service Contribution tax credit;
3. Historic Preservation tax credit;
4. Abandoned Well Plugging tax credit;
5. Agritourism Liability Insurance tax credit;
6. Alternative Fuel tax credit;
7. Assistive Technology Contribution tax credit;
8. Disabled Access tax credit;
9. Environmental Compliance tax credit;
10. High Performance Incentive Program (HPIP) tax credit;
11. Individual Development Account (IDA) tax credit;
12. Research and Development tax credit;
13. Single City Port Authority tax credit;
14. Small Employer Health Benefit Plan Contribution tax credit;
15. Swine Facility Improvement tax credit;
16 Telecommunications and Railroad tax credit;
17. Temporary Assistance to Families (TAF) tax credit;
18. Venture Capital tax credit; and
19. Local Seed Capital tax credit.

The bill would allow corporate taxpayers to claim any unused corporate tax credits that are earned prior to tax year 2014 and are being eliminated under the bill, as long as the tax credit is allowed to be carried forward under current law.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	($10,000,000)	($10,000,000)
Expenditure	--	--	$160,380	$160,380
FTE Pos.	--	--	--	--

The Department of Revenue estimates that SB 240 would decrease State General Fund revenues by $10.0 million in FY 2014. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	$ 39,000	$ --	$ 39,000
Income Taxes:			
Individual	2,385,000	--	2,385,000
Corporate	360,000	(10,000)	350,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	151,500	--	151,500
Total Taxes	$5,555,500	($ 10,000)	$5,545,500
Other Revenues:			
Interest	$ 9,700	$ --	$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	55,000	--	55,000
Total Other Revenues	($ 91,200)	$ --	($ 91,200)
Total Receipts	$5,464,300	($ 10,000)	$5,454,300

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

	FY 2015	FY 2016	FY 2017	FY 2018
State General Fund	($10,000,000)	($10,000,000)	($10,000,000)	($10,000,000)

To formulate these estimates, the Department of Revenue reviewed data from tax year 2010 on corporate income tax collections and tax credits. The Department of Revenue estimates that reducing the corporate income surtax from 3.0 percent to 2.0 percent would reduce corporate income tax receipts to the State General Fund by $50.0 million in FY 2014 and each future fiscal year. The Department of Revenue estimates that eliminating most corporate income tax credits would allow the State General Fund to retain approximately $40.0 million in FY 2014. Repealing the federal net operating loss addback modifications and the Kansas net operating loss deduction are estimated to cancel each other out in the long run; however, corporate net operating losses can vary significantly at different points in the business cycle. Therefore, the net reduction to State General Fund revenues is estimated to be $10.0 million, which includes the reduction of $50.0 million for the surtax rate change and partially offset by an additional $40.0 million from eliminating corporate tax credits.

The Department indicates that the bill would require $160,380 from the State General Fund in FY 2014 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. 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. The Department of Commerce did not respond to a request for information, but would presumably realize some staff time savings from no longer administering several of the tax credits eliminated in this bill. Any fiscal effect associated with SB 240 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,

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

cc: Steve Neske, Revenue
Dan Lara, Commerce
Zac Anshutz, Insurance
Pam Fink, Administration