

# STATE OF KANSAS

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GOVERNOR JEFF COLYER, M.D.  
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

March 26, 2018

The Honorable Steven Johnson, Chairperson  
House Committee on Taxation  
Statehouse, Room 185-N  
Topeka, Kansas 66612

Dear Representative Johnson:

**SUBJECT:** Fiscal Note for HB 2473 by Representative Sloan

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2473 is respectfully submitted to your committee.

HB 2473 would allow a tax credit that is equal to the rental income received by a taxpayer for rent of real estate to any provider of broadband for the installation of any equipment required in providing broadband in a rural area. This credit would be a non-refundable credit that can be carried forward for up to four years. The bill would allow 80.0 percent of the tax credit to be transferred to another taxpayer that has Kansas tax liability as long as the Director of Taxation at the Department of Revenue is notified of the transfer. Unused credit amounts claimed from the transfer may be carried forward for up to five years, except that all amounts must be claimed within ten years following the tax year in which the tax credit was earned. The amount received from the transfer of the tax credit would be taxable, and the excess of the value of the credit over the amount paid from the transfer would also be taxable as income. The Department of Revenue would have the authority to adopt rules and regulations to implement the bill.

The bill would entitle a taxpayer to a deduction from Kansas adjusted gross income for the amortization of costs of equipment for the installation of broadband in a rural area. This amortization deduction would be equal to 55.0 percent of the amortizable costs of the broadband equipment in a rural area for the first taxable year in which the equipment was installed and 5.0 percent of the amortizable costs of the broadband equipment in a rural area for each of the next nine taxable years. The tax credit and tax deductions would be effective beginning in tax year 2019. The bill would also provide a sales tax exemption for all sales of tangible personal property used to provide broadband in a rural area beginning on July 1, 2018.

The Kansas Department of Revenue estimates HB 2473 would decrease State General Fund revenues from state individual income taxes by up to \$500,000 in FY 2020 for the income

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tax credit and deduction. The reduction in state and local sales taxes from the sales tax exemption would be negligible. The Department calculates its fiscal effect estimate on state sales tax revenues using the percentage of Kansans who currently have access to broadband internet as indicated by [highspeedinternet.com](http://highspeedinternet.com), which reports 94.0 percent of Kansans with broadband internet access. Since the provisions of the bill would limit usage of the exemption to areas not currently served by a broadband provider, the Department indicates the exemption would not be utilized on a widespread basis.

The Department of Revenue indicates that the bill would require \$89,080 from the State General Fund in FY 2019 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, additional expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund. KDOT indicates that when the state receives lower State Highway Fund dollars it may be required to make corresponding reductions to planned expenditures for projects funded under the comprehensive transportation plan, known as T-WORKS.

The Kansas Association of Counties and the League of Kansas Municipalities indicate that the sales tax exemption would provide a net reduction to local sales tax collections that are used in part to finance local governments. The Kansas Association of Counties indicates the bill has the potential to increase investment in the rural broadband infrastructure. Any fiscal effect associated with HB 2473 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,



Larry L. Campbell  
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue  
Ben Cleeves, Transportation  
Chardae Caine, League of Municipalities  
Melissa Wangemann, Association of Counties