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Larry L. Campbell, Director

Laura Kelly, Governor

January 28, 2020

REVISED

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

Dear Representative Johnson:

SUBJECT: Revised Fiscal Note for HB 2278 by House Committee on Taxation

In accordance with KSA 75-3715a, the following revised fiscal note concerning HB 2278 is respectfully submitted to your committee.

HB 2278 would create a new two bracket income tax rate system beginning in tax year 2020. For tax year 2020 and all future tax years, the individual income tax rates would be set by a formula for income under $50,000 ($100,000 for married filing jointly) and by a different formula for income over $50,000 ($100,000 for married filing jointly). Each income tax rate formula would be based on taxable income and the number of filing periods.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	$5,600,000	$5,600,000
Expenditure	--	--	$68,991	$68,991
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2278 would increase State General Fund revenues by $5.6 million in FY 2021. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2022	FY 2023
State General Fund	$4,300,000	$4,400,000

The fiscal note was calculated by simulating the new two bracket income tax rate system and current law with tax return data from tax year 2018. The Department of Revenue compared the taxes generated from the two methods and indicates that the new proposed two bracket income tax rate system would have generated an additional $4.2 million in tax year 2018 compared to the current law tax system. The Department of Revenue indicates that the proposed upper-bracket formula is exactly the same as the current Kansas top-bracket formula. The individual income tax estimate for FY 2021 includes 100.0 percent of tax year 2020 tax liability and 30.0 percent of tax year 2021 tax liability. The individual income tax estimate for FY 2022 includes 70.0 percent of tax year 2021 tax liability and 30.0 percent of tax year 2022 tax liability.

The Department of Revenue indicates that it would require a total of $68,991 from the State General Fund in FY 2020 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. Since the original fiscal note was issued, the Department of Revenue recalculated the fiscal effect with tax return data from tax year 2018 instead of data from tax year 2017, and lowered its estimate on administrative costs needed to implement the bill.

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 decreased, the amount available for possible debt setoffs is also reduced. However, the Department is unable to make an estimate of the amount of debt setoffs that would no longer be intercepted as a result of the bill. Any fiscal effect associated with HB 2278 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jeff Scannell, Department of Administration