

February 24, 2020

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2668 by Representative Croft, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2668 is respectfully submitted to your committee.

HB 2668 would establish the Property Tax Relief Act starting in tax year 2021 and in future tax years. The bill eliminates the Selective Assistance for Effective Senior Relief (SAFESR) and the Homestead Property Tax Refund after tax year 2020. The Property Tax Relief Act would be available to residential homestead property owners earning less than \$50,000 a year in income. The bill would allow the income threshold to be adjusted annually beginning in tax year 2022, according to the cost-of-living adjustments from the federal Internal Revenue Service (IRS). The bill includes two formulas to calculate the amount of the property tax relief that could be claimed on all Kansas individual income tax forms: one for a person less than 65 years of age and one for a person 65 years of age or older. The bill would only allow one claimant per household per year. The claimant could either have the refund applied to their property taxes or receive the refund directly. The bill includes definitions for "base year," "claimant," "homestead," "household," "household income," "income," and "property taxes accrued." The bill includes language that allows the claimant's legal guardian, conservator, attorney-in-fact, or estate to claim the tax credit.

The Department of Revenue would be required to send a record to the county clerks each year with the name of each eligible claimant who received a refund. The county clerk would make any needed corrections to the record sent by the Department of Revenue and certify the information to the county treasurer. The county treasurer would be required to certify the record with any changes to the Department of Revenue by December 31st each year. Any refund involving delinquent property taxes on the homestead would apply to the oldest delinquent property taxes first.

The Department of Revenue would be required make available the forms and instructions for claimants. The forms and instructions would be available at the county clerk's office who would also have the duty to assist claimants on filing a claim. The bill would require each county treasurer to include information from the Department of Revenue about claiming benefits from the Property Tax Relief Act in the annual property tax statement. The Department of Revenue would have the authority to write rules and regulations to implement the bill.

The bill would make it a class B misdemeanor to fraudulently make a claim and would allow for recovery of the amount paid with interest. A claim that is excessive or negligently prepared would have 10.0 percent of the corrected claim disallowed and allow for recovery with interest of any overpayment. The bill would not allow an individual to claim benefits under the Property Tax Relief Act, if they receive public funds to pay taxes or if they receive the title to the homestead primarily to receive the benefits of this bill. The bill would allow the Department of Revenue to extend the time to file a claim for good cause to within four years of the deadline.

The Department of Revenue estimates that HB 2668 would have no fiscal effect in FY 2021. The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
State General Fund	(\$57,100,000)	(\$71,300,000)	(\$85,800,000)

To formulate the estimates on the Property Tax Relief Act, the Department of Revenue reviewed housing and population data from the U.S. Census Bureau and housing and property tax data from the Property Valuation Division of the Department of Revenue. The Department estimates that eligible taxpayers would claim approximately \$80.3 million in benefits under the Property Tax Relief Act in tax year 2021 or FY 2022. The Department indicates 124,881 claimants 65 years of age or older would claim approximately \$28.6 million in benefits for an average benefit of \$228.98. The Department indicates 211,407 claimants under 65 years of age would claim approximately \$51.7 million in benefits for an average benefit of \$244.39. Repealing the SAFESR and the Homestead Property Tax Refund would save a total of approximately \$23.2 million in tax year 2021 or FY 2022. Therefore, the net fiscal effect of this bill in tax year 2021 or FY 2022 would be a reduction of state income tax receipts of \$57.1 million (\$23.2 million from repealing SAFESR and Homestead minus \$80.3 million for the new Property Tax Relief Act). The estimates assume that property taxes will increase an average of 4.5 percent each year.

The Department indicates that the bill would require \$373,406 from the State General Fund in FY 2021 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 3.00 new FTE positions to review, process, and audit tax returns. 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.

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 increased, the amount available for possible debt setoffs is also increased. However, the Department is unable to make an estimate of the amount of additional debts setoffs that will be intercepted as a result of the bill.

The Department of Revenue, Department of Education, League of Kansas Municipalities, and the Kansas Association of Counties indicate the bill would have no fiscal effect on state and local property tax collections. The Kansas Association of Counties indicates that the bill would require county treasurers to include additional information with the annual property tax statement. The Association indicates that the bill would likely require counties to incur programming and coding costs to include this information with the annual property tax statement. The bill would also require county clerks to review information from the Department of Revenue and to assist claimants on filing a claim under the Property Tax Relief Act, which may require counties to hire temporary staff to help fulfill this requirement. However, the Association did not provide an estimate of the amount of additional programming and coding costs, or the costs to hire temporary staff that would be required for counties as a result of this bill. Any fiscal effect associated with HB 2668 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

A handwritten signature in cursive script that reads "L. L. Campbell".

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Jeff Scannell, Department of Administration
Trey Cocking, League of Municipalities
Jay Hall, Association of Counties
Dale Dennis, Education