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Larry L. Campbell, Director

Laura Kelly, Governor

March 17, 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 2734 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2734 is respectfully submitted to your committee.

HB 2734 would allow national banking associations, state banks, trust companies, and savings and loan associations to deduct the interest income received from business loans and single-family residence loans attributed to Kansas from net income, if the interest is included in the Kansas taxable income of a corporation. This bill would go into effect beginning in tax year 2020.

Under current law, credit union field memberships are limited to a geographical population of 500,000 in non-metropolitan statistical areas and 1.0 million in metropolitan statistical areas within Kansas. The bill would increase geographical population from 500,000 to up to 2.5 million without any restrictions based on non-metropolitan statistical areas or metropolitan statistical areas. The bill would also eliminate several criteria that impact the calculation of population within a geographical area.

Estimated State Fiscal Effect				
	FY 2020 SGF	FY 2020 All Funds	FY 2021 SGF	FY 2021 All Funds
Revenue	--	--	($32,000,000)	($32,000,000)
Expenditure	--	--	$45,578	$45,578
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2734 would decrease State General Fund revenues by $32.0 million in FY 2021, $21.5 million in FY 2022, and $21.5 million in FY 2023.

To formulate these estimates, the Department of Revenue reviewed data on state-chartered banks from the Kansas Bankers Association. Data indicates that there are 223 state-chartered banks in Kansas and the percent of commercial loan interest income to the total interest income for those banks is estimated at 48.9 percent. Under current law, the state is estimated to receive $43.0 million in financial institutions privilege taxes in FY 2021 according to the November 2019 Consensus Revenue Estimate. Reducing collections by 48.9 percent would reduce financial institutions privilege taxes by approximately $21.5 million in tax year 2020. The financial institutions privilege tax estimate for FY 2021 includes all of tax year 2020 tax liability and a portion of tax year 2021 tax liability. Any fiscal effect regarding interest income from agricultural loans is not accounted for in the fiscal effect of this bill because the Department does not have data on this specific income source.

The Department indicates that the bill would require $45,578 from the State General Fund in FY 2021 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.

The Office of the State Bank Commissioner and the Department of Credit Unions both state that passage of the bill would not have a fiscal effect on agency operating expenditures. Any fiscal effect associated with HB 2734 is not reflected in *The FY 2021 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Director of the Budget

cc: Jerel Wright, Credit Unions
Lynn Robinson, Department of Revenue
Melissa Wangemann, Office of Banking Commissioner