Division of the Budget
Landon State Office Building
900 SW Jackson Street, Room 504
Topeka, KS 66612

Kansas
Division of the Budget

Phone: (785) 296-2436
larry.campbell@ks.gov
http://budget.kansas.gov

Larry L. Campbell, Director

Laura Kelly, Governor

March 27, 2019

REVISED

The Honorable Susan Wagle, Chairperson
Senate Select Committee on Federal Tax Code Implementation
Statehouse, Room 333-E
Topeka, Kansas 66612

Dear Senator Wagle:

SUBJECT: Revised Fiscal Note for SB 13 by Senator Tyson, et al.

In accordance with KSA 75-3715a, the following revised fiscal note concerning SB 13 is respectfully submitted to your committee.

Under current law, a taxpayer is only allowed to use itemized deductions on a state income tax return if they also use itemized deductions on the federal income tax return. SB 13 would allow the taxpayer to use itemized deductions on the state income tax return regardless if they use itemized deductions on federal income tax return beginning in tax year 2018. Taxpayers would be allowed to file an amended return by December 31, 2019, in order to make this election for tax year 2018. For tax year 2019 and all future tax years, the bill would allow 100.0 percent of medical care expenses, mortgage interest, and property taxes claimed on federal income tax returns to be claimed as an itemized deduction on state income tax returns in tax year 2019 and in each future tax year. Current law only allows 75.0 percent of these deductions to be claimed in tax year 2019 before increasing to 100.0 percent starting in tax year 2020. The bill would also remove outdated language on itemized deductions.

Under current law, Kansas corporations, banks, trust companies, and savings and loans are allowed to claim the Kansas expensing deduction for investments in qualifying machinery and equipment that are placed into service in Kansas for tax year 2014 and each future tax year. The bill would also allow individual income taxpayers to claim the expensing deduction beginning in tax year 2019. All taxpayers claiming the Kansas expensing deduction would be required to offset the costs of the expensing deductions claimed on the federal return with Section 179 of the Internal Revenue Code.

The bill would create a new non-refundable income tax credit equal to 15.0 percent of the amount of expenditures for goods and services purchased from a qualified vendor beginning in tax year 2019 through tax year 2023. The bill defines “qualified vendor” as a nonprofit entity that provides employment to individuals who are blind or severely disabled or is declared to be a certified business by the Department of Administration. A certified business is required to do most of its business primarily in Kansas or substantially all of its production in Kansas; employ at least 30.0 percent of its employees who are individuals with disabilities and reside in Kansas; offer to contribute at least 75.0 percent of the premium cost for individual health insurance coverage for each employee and does not employ individuals under a certificate issued by the United States Secretary of Labor. The bill would allow a taxpayer to claim up to $500,000 in tax credits per qualified vendor in each tax year and the maximum amount of tax credits would be capped at $5.0 million for all tax years that the income tax credit remains in effect. Any unused tax credits would be allowed to be carried forward for up to four tax years. The Secretary of Commerce would be responsible to certify qualified vendors and to certify the amount of goods and services purchased by a taxpayer from qualified vendors on an annual basis. The Department of Commerce would have the authority to write rules and regulations to implement the bill. The bill would require the Secretary of the Department of Revenue to report to the House Committee on Taxation and the Senate Committee on Assessment and Taxation on or before February 1, 2021, 2022, and 2023, concerning the implementation and effectiveness of the new income tax credit.

The bill would add Cowley and Crawford counties to the list of 77 counties that are currently designated as Rural Opportunity Zones. The Rural Opportunity Zones Program helps attract financial investment, business development, and job growth in rural areas of the state. The program offers individuals who relocate from outside the state to a county that has been designated as a Rural Opportunity Zone the opportunity to participate in the Student Loan Forgiveness Program and receive a 100.0 percent state income tax credit through tax year 2021.

Under current law, Thomas County is authorized to submit to voters the question of imposing an additional 1.5 percent countywide sales tax to finance the costs of constructing or remodeling the courthouse, jail, law enforcement center facility, or other county administrative facility. The bill would allow Thomas County to submit to voters the question of imposing an additional countywide sales tax at either 1.5 percent or 1.75 percent for this purpose. The countywide sales tax would expire after the costs associated with the project have been paid.

The bill would allow Jackson County the authority to submit to voters the question of imposing an additional countywide sales tax of 0.4 percent to finance the costs of public infrastructure projects that are specified at the election. The additional countywide sales tax would expire after seven years. The bill would also remove outdated sales tax authority language for Jackson County.

The bill would allow Dickinson County the authority to submit to voters the question of imposing an additional countywide sales tax of 0.5 percent to finance the costs of roadway construction and improvement projects that are specified at the election. The additional countywide sales tax would expire after ten years.

The bill would also allow Russell County to submit to voters the question of imposing an additional countywide sales tax at 0.5 percent to finance economic development initiatives and public infrastructure projects. The additional countywide sales tax would expire after ten years.

The bill would provide a retail sales tax exemption for all sales of gold and silver coins; and palladium, platinum, gold, or silver bullion. The bill provides a specific definition for bullion. The bill would provide a sales tax exemption for Midland Care Connection, Inc. for the purpose of providing healthcare services to persons in the community. The bill would exempt from sales tax all sales of tangible personal property or services purchased by this organization.

Under current law, if a city or county passes a budget that requires additional property taxes compared to the previous year, with certain exceptions, then the budget must be approved by voters. The bill would allow the governing body of any city or county to increase property tax, without voter approval, as a result of the city or county assuming all powers, responsibilities, duties, and liabilities of another taxing entity that has been dissolved. The bill would also amend the Motor Fuel Tax Law to remove alcohol from the definition of special fuel (diesel).

Estimated State Fiscal Effect				
	FY 2019 SGF	FY 2019 All Funds	FY 2020 SGF	FY 2020 All Funds
Revenue	--	--	($65,957,000)	($66,000,000)
Expenditure	--	--	$1,349,176	$1,349,176
FTE Pos.	--	--	--	0.50

In the original fiscal note issued, the Department of Revenue calculated the fiscal effect of allowing taxpayers to use itemized deductions on a state income tax return regardless if they use itemized deductions on the federal income tax return by reviewing data from tax year 2016. The Department is now able to analyze updated data from tax year 2017 and issued a revised fiscal note. The Department also lowered its estimate on administrative costs needed to implement the bill. The Department of Revenue estimates that SB 13 would decrease state revenues by $66.0 million in FY 2020. Of that total, the State General Fund is estimated to decrease by $65,957,000 in FY 2020, while the State Highway Fund is estimated to decrease by $43,000 in FY 2020. The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2021	FY 2022
State General Fund	($60,257,000)	($60,767,000)
State Highway Fund	(43,000)	(43,000)
	($60,300,000)	($60,800,000)

The Department of Revenue estimates that allowing taxpayers to use itemized deductions on a state income tax return regardless if they use itemized deductions on the federal income tax return would decrease State General Fund revenues by $50.1 million in FY 2020, $60.3 million in FY 2021, and $60.9 million in FY 2022. To formulate these estimates, the Department of Revenue reviewed data on standard and itemized deductions from tax year 2017. Federal tax reform will entice more federal standard deduction users through the raising of the standard deduction and the limit on itemized deductions. Because the bill is retroactive to tax year 2018, the Department assumes individual income taxpayers would amend tax year 2018 returns and apply for refunds in FY 2020. Allowing 100.0 percent of medical care expenses, mortgage interest, and property taxes claimed on federal income tax returns to be claimed as an itemized deduction on state income tax returns in tax year 2019 is estimated to decrease State General Fund revenues by $15.8 million in FY 2020.

The Department of Revenue estimates that allowing expensing for individual income taxpayers and requiring the Section 179 of the Internal Revenue Code offset would increase State General Fund revenues by $2.1 million in FY 2020, $2.2 million in FY 2021, and $2.3 million in FY 2022. To formulate these estimates, the Department of Revenue reviewed data from tax year 2012, which was the last tax year that individual income taxpayers were allowed to claim the expensing deduction.

The Department of Revenue does not have data on how many taxpayers would purchase goods and services from a qualified vendor, including from certified businesses, to provide an accurate estimate of the fiscal effect of the bill. The Department indicates that the State of Kansas spends approximately $11.0 million per year on goods and services from qualified vendors under the State Use Program. The State Use Program requires state agencies and school districts to purchase goods and services from the State Use Catalog, which includes products and services manufactured and offered by blind and severely disabled Kansans. The Department indicates that if taxpayers make approximately $11.3 million in expenditures from qualified vendors, then approximately $1.7 million in tax credits would be earned, which has the potential to reduce State General Fund revenues by that same amount each year beginning in FY 2020 through FY 2024.

The Department of Commerce indicates that it would require $42,125 from the State General Fund in FY 2020 for administrative costs to implement this new program. This estimate includes the salaries and wages and operating costs for a new 0.50 FTE position. This new program would require the Department to verify the amount of goods and services purchased by a taxpayer from qualified vendors on an annual basis and to certify qualified vendors. Currently the Office of Procurement and Contracts in the Department of Administration determines the qualified vendors. The bill could have a fiscal effect for the Department of Administration, if the Office of Procurement and Contracts is asked to assist the Department of Commerce by providing data regarding qualified vendors.

The Department of Revenue estimates that allowing Cowley and Crawford counties to be designated as Rural Opportunity Zones would decrease State General Fund revenues by $200,000 in FY 2020, FY 2021, and FY 2022. To formulate these estimates, the Department of Revenue reviewed data from the Internal Revenue Service and the United States Census Bureau. The Department of Commerce indicates that it is currently responsible for administering the Rural Opportunity Zones Program. No information exists to accurately estimate the number of individuals who would qualify for the Student Loan Forgiveness Program. Assuming that 20 individuals would qualify for the Student Loan Forgiveness Program; the Department of Commerce would require approximately $30,000 from the State General Fund in FY 2020 for the state obligations of this program. However, the amount may be significantly higher or significantly lower depending on the level of participation by Cowley and Crawford counties that would be responsible for the local match for this program. The Department indicates that the administrative costs associated with reviewing additional applications from individuals that are proposing to move to the new Rural Opportunity Zone proposed in the bill would be negligible and could be absorbed within existing staff levels and resources.

The Department of Revenue indicates that the local sales tax authority provisions of the bill would affect only local sales tax collections in Thomas County, Jackson County, Dickinson County, and Russell County and would have no fiscal effect on state revenues. The Department indicates that the administrative costs associated with implementing the provisions of the bill would be negligible and could be absorbed within existing resources.

The Department of Revenue estimates that providing a sales tax exemption for certain coins and bullions and Midland Care Connection, Inc. would decrease state revenues by $300,000 in FY 2020. Of that total, the State General Fund is estimated to decrease by $257,000 in FY 2020, while the State Highway Fund is estimated to decrease by $43,000 in FY 2020. This bill also is estimated to decrease local sales tax revenues; however, the specific estimate of lower local sales tax revenues was not calculated by the Department of Revenue. The Department of Revenue indicates that the provision would have a similar fiscal effect in future fiscal years. The Kansas Department of Transportation (KDOT) indicates that the bill would reduce state revenues to the State Highway Fund as noted above. The Kansas Association of Counties and the League of Kansas Municipalities indicate that the bill would provide a net reduction to local sales tax collections that are used in part to finance local governments.

According to the League of Kansas Municipalities and the Kansas Association of Counties, the bill would have a fiscal effect on cities and counties. Cities and counties would not be required to hold special elections to approve increases in property taxes when those increases would pay for the duties and responsibilities that have been transferred to the city or county from a taxing entity that has been dissolved. It is not possible to estimate how many fewer elections would be held and how much those elections would cost; therefore, the fiscal effect cannot be estimated. The Department of Revenue indicates that this provision would have no fiscal effect on state revenues.

The Department of Revenue and the Kansas Department of Transportation indicate removing alcohol from the definition of special fuel (diesel) would have no fiscal effect.

The Department of Revenue indicates that it would require a total $1,277,051 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 and outside contract programmer services. 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. Any fiscal effect associated with SB 13 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Bob North, Commerce
Chardae Caine, League of Municipalities
Jay Hall, Association of Counties
Ben Cleeves, Transportation
Colleen Becker, Department of Administration