

March 1, 2021

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 202 by Senator Holland, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning SB 202 is respectfully submitted to your committee.

SB 202 would enact the COVID-19 Taxpayer and Small Business Owner Relief Act. The bill would exclude unemployment compensation benefits from gross income if the benefits were secured with a fraudulent identity and the taxpayer did not receive the benefits. These benefits would not be subject to Kansas income taxes after the Department of Revenue determines the benefits were obtained fraudulently by another individual.

The bill would allow taxpayers that operate non-essential businesses that were directly impacted by a COVID-19 order imposed by the state or a city or county health department the ability to claim a refundable income tax credit equal to 25.0 percent of the property taxes paid in that tax year. The tax credit would be available beginning retroactively to tax year 2020 and would continue through tax year 2022. The maximum amount that a taxpayer could claim in any tax year is capped at \$1,000.

The bill would allow taxpayers to defer certain property taxes if their valuation increased by more than 40.0 percent from the previous year beginning in tax year 2021. The valuation of the property cannot exceed \$10.0 million. This new program would only apply to property that has no meaningful changes to its property characteristics and would not apply to new construction or improvements. The taxpayer would be required to pay the county treasurer at least 140.0 percent of the previous year's property taxes to qualify for the deferral. The taxpayer would be required to pay back the deferral amount in equal payments over the next four years. Taxes properly deferred would not be considered delinquent. No interest would be charged on the deferral, unless the taxpayer fails to make the payments on time, then the deferred taxes would be due immediately and would subject to interest. If the taxpayer sells or transfers the property, then the deferred property taxes would be due immediately and would be subject to interest. The taxpayer would be required to apply for the deferral by December 10 of each year and the county treasurer would

determine eligibility and calculate the payment due. If the property could be eligible for this deferral program, then the county treasurer would be required to include information on the deferral program on the notice of valuation and property tax statement. The bill would allow the county treasurer to request a loan from the Pooled Money Investment Board (PMIB) to cover the property tax deferral amount. The loan would have to be repaid within four years.

The Department of Labor and the Department of Revenue both indicate that the provision of the bill that allows taxpayers to exclude fraudulent unemployment compensation benefits from gross income would have no fiscal effect. Victims are not held accountable for taxes on unemployment compensation benefits related to identity theft.

The Department of Revenue does not have any data to estimate the fiscal effect of allowing taxpayers that operate non-essential businesses that were directly impacted by a COVID-19 order to claim a refundable income tax credit based on property taxes paid. It is unknown how many non-essential businesses would qualify for this tax credit or how many taxpayers would claim this tax credit. The amount of the tax credit would be capped at \$1,000 per qualified taxpayer.

The Department of Revenue indicates that it would require a total \$147,509 from the State General Fund in FY 2022 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.

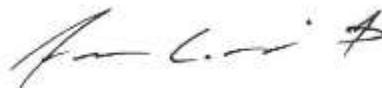
The Department of Revenue estimates that the property tax deferral program has the potential to reduce property tax revenue by a negligible amount if the deferred property tax becomes delinquent and is not collected. The Department does not have data on the number of businesses that would qualify for the property tax deferral program or the amount property taxes that could become delinquent to provide an estimate of the fiscal effect under this provision of the bill. Deferring property taxes for four years increases the potential that they could become delinquent. If the delinquent taxes are not collected, then the bill has the potential to reduce the amount of property tax revenues that would be collected for the two building funds, the Educational Building Fund and the State Institutions Building Fund. Less property tax revenue would also affect state expenditures for aid to school districts. To the extent that less property tax revenue would be available from the state's uniform mill levy to fund expenditures for school districts, the state would be required to provide more state aid from the State General Fund through the school finance formula. Local governments that levy a property tax would also receive less revenues; however, the amount of reduced property tax revenues cannot be estimated.

The bill would require the PMIB to loan money to counties to cover the amount of property taxes that are deferred in that county. The PMIB is authorized to make investments in U.S. Treasury and federal agency securities, highly rated commercial paper and corporate bonds, and repurchase agreements and certificates of deposit at Kansas banks. Declining balances have required the PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. The PMIB maintains a significant portion of its investments in overnight repurchasing agreements. Rates that the PMIB could earn in that market fell to near zero after

actions from the Federal Reserve in 2020 (and are likely to stay low for the foreseeable future according to the November 2020 Consensus Revenue Estimate Memo). The bill is unclear if interest can be charged to the counties on the deferred property tax loans. If no interest is charged, then the bill has the potential to reduce the overall amount of interest earnings that state could earn. Once these monies are loaned out, the state would not have access to these monies for cashflow purposes and it would be four years before all deferred property taxes would be repaid under this provision of the bill. The PMIB indicates that the bill would require it to perform additional administrative responsibilities; however, the cost of performing these responsibilities would be negligible and could be absorbed within existing resources.

The League of Kansas Municipalities indicates the bill would have no fiscal effect on the operation of cities. The Kansas Association of Counties indicates the bill would allow counties to borrow money from the PMIB for deferred property taxes, and the county treasurer would then distribute the money to the taxing jurisdiction, which would be the same as if the tax had been regularly paid. However, the terms of the loan from the PMIB are unclear on whether interest could be charged and who would be responsible for any interest payments. The Kansas Association of Counties indicates the bill has the potential to increase administrative costs for counties to notify taxpayers that they may qualify for the deferred property tax program. The county treasurer would also be required to determine if the taxpayer is eligible, calculate the payment due, and process deferred property tax payments. The Kansas Association of Counties is unable to determine the amount of staff time and resources would be necessary to perform the requirements of the bill, and therefore is unable to provide an estimate of the fiscal effect on counties. Any fiscal effect associated with SB 202 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Dawn Palmberg, Department of Labor
Wendi Stark, League of Municipalities
Jay Hall, Association of Counties
Craig Neuenswander, Education
Scott Miller, PMIB