

February 21, 2012

The Honorable Richard Carlson, Chairperson  
House Committee on Taxation  
Statehouse, Room 274-W  
Topeka, Kansas 66612

Dear Representative Carlson:

**SUBJECT:** Fiscal Note for HB 2518 by Representative Sloan

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2518 is respectfully submitted to your committee.

HB 2518 would amend the Kansas Angel Investor Tax Credit Act. The bill would increase the maximum amount of tax credits that a taxpayer would be allowed to receive for an investment in a qualified Kansas business from \$50,000 to \$100,000 and would increase the total amount of tax credits that an investor would be allowed to claim each year from \$250,000 to \$500,000. The bill would increase the maximum amount of tax credits allowed in tax year 2012 through tax year 2016 from \$6.0 million to \$12.0 million. Under current law, only investors that do not have any Kansas income tax liability for the previous three years are allowed to transfer the tax credits. HB 2518 would allow all investors the ability to transfer the tax credits.

Under current law, only businesses with less than \$5.0 million in annual gross revenues in the most recent tax year of the business can be designated as a qualified Kansas business for investments that qualify for an Angel Investor Tax Credit. The bill would increase the maximum amount of annual gross revenue for a qualified Kansas business to \$10.0 million. The bill would also remove the current requirement that non-bioscience businesses must have been in operation for less than five years and that bioscience businesses must have been in operation for less than ten years.

Estimated State Fiscal Effect				
	FY 2012 SGF	FY 2012 All Funds	FY 2013 SGF	FY 2013 All Funds
Revenue	--	--	(\$6,000,000)	(\$6,000,000)
Expenditure	--	--	\$190,447	\$190,447
FTE Pos.	--	--	--	0.50

The Department of Revenue estimates that HB 2518 would decrease State General Fund revenues by \$6.0 million in FY 2013. The decrease in revenues and how the November 4, 2011 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2013 Consensus Revenue Estimates  
 (Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov. 4, 2011)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,065,000	(6,000)	3,059,000
Corporate	240,000	--	240,000
Financial Institutions	24,000	--	24,000
Excise Taxes:			
Retail Sales	2,200,000	--	2,200,000
Compensating Use	335,000	--	335,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	102,800	--	102,800
All Other Excise Taxes	96,000	--	96,000
Other Taxes	<u>141,000</u>	<u>--</u>	<u>141,000</u>
Total Taxes	\$6,322,800	(\$ 6,000)	\$6,316,800
Other Revenues:			
Interest	\$ 7,400	\$ --	\$ 7,400
Transfers	(90,300)	--	(90,300)
Agency Earnings	<u>51,500</u>	<u>--</u>	<u>51,500</u>
Total Other Revenues	(\$ 31,400)	\$ --	(\$ 31,400)
Total Receipts	\$6,291,400	(\$ 6,000)	\$6,285,400

The fiscal effect to state revenues during subsequent years would be as follows:

	FY 2014	FY 2015	FY 2016	FY 2017
State General Fund	(\$6,000,000)	(\$6,000,000)	(\$6,000,000)	(\$6,000,000)

To formulate these estimates, the Department of Revenue reviewed data on the Kansas Angel Investor Tax Credit. Under current law, the Department estimates that the maximum \$6.0 million in tax credits will be claimed in tax year 2012 through tax year 2016. The Department estimates that the changes proposed in the bill would allow a total of \$12.0 million in tax credits to be claimed in tax year 2012 through tax year 2016. Therefore, the net fiscal effect of HB 2518 would be a reduction of State General Fund revenues by an additional \$6.0 million in FY 2013 and each year through FY 2017 (\$12.0 million - \$6.0 million).

The Honorable Richard Carlson, Chairperson

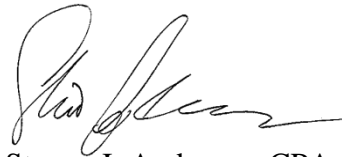
February 21, 2012

Page 3—2518

The Department of Revenue indicates the bill would require \$138,877 from the State General Fund for administrative costs to update tax credit schedules and instructions, and to modify the automated tax system. The required programming for this bill by itself (360 hours in in-house programming and 120 hours of implementation) would be performed by existing staff of the Department of Revenue. However, 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, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Commerce indicates that the bill would require \$51,570 from the State General Fund for the salaries and wages and operational expenses for a new half-time FTE position to process and track additional applications for the Angel Investor Tax Credit Program. The Department of Commerce estimates that additional companies will submit applications to be certified as a qualified Kansas business and angel investors that make investments in the state will also increase. Any fiscal effect associated with HB 2518 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", written in a cursive style.

Steven J. Anderson, CPA, MBA  
Director of the Budget

cc: Jason Glasrud, Commerce  
Steve Neske, Revenue