



March 22, 2013

The Honorable Richard Carlson, Chairperson  
 House Committee on Taxation  
 Statehouse, Room 285-N  
 Topeka, Kansas 66612

Dear Representative Carlson:

**SUBJECT:** Fiscal Note for HB 2268 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2268 is respectfully submitted to your committee.

Under current law, tax year 2012 is the last tax year that a taxpayer can deduct the premium costs of qualified long-term care insurance contracts from Kansas adjusted gross income. HB 2268 would reinstate this subtraction modification for tax year 2013 and in each future tax year. The amount of the subtraction modification could not exceed \$1,000.

Estimated State Fiscal Effect				
	FY 2013 SGF	FY 2013 All Funds	FY 2014 SGF	FY 2014 All Funds
Revenue	--	--	(\$2,100,000)	(\$2,100,000)
Expenditure	--	--	--	--
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2268 would decrease State General Fund revenues by \$2.1 million in FY 2014 and by \$2.2 million in FY 2015. The decrease in revenues and how the November 6, 2012 consensus revenue estimate for FY 2014 would be affected are shown in the following table:

Effect on FY 2014 Consensus Revenue Estimates  
*(Dollars in Thousands)*

Receipt Description	Consensus Revenue Estimates (Nov. 6, 2012)	Change in Revenue FY 2014	Proposed Adjusted CRE FY 2014
Motor Carrier	\$ 39,000	\$ --	\$ 39,000

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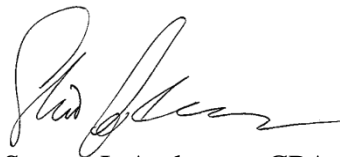
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Income Taxes:			
Individual	2,385,000	(2,100)	2,382,900
Corporate	360,000	--	360,000
Financial Institutions	30,000	--	30,000
Excise Taxes:			
Retail Sales	1,952,000	--	1,952,000
Compensating Use	303,000	--	303,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	137,400	--	137,400
All Other Excise Taxes	99,600	--	99,600
Other Taxes	<u>151,500</u>	<u>--</u>	<u>151,500</u>
Total Taxes	\$5,555,500	(\$ 2,100)	\$5,553,400
Other Revenues:			
Interest	\$ 9,700	\$ --	\$ 9,700
Transfers	(155,900)	--	(155,900)
Agency Earnings	<u>55,000</u>	<u>--</u>	<u>55,000</u>
Total Other Revenues	(\$ 91,200)	\$ --	(\$ 91,200)
Total Receipts	\$5,464,300	(\$ 2,100)	\$5,462,200

To formulate these estimates, the Department of Revenue reviewed data on the Kansas income tax deduction for long-term care insurance premium costs. The Department indicates that approximately 39,500 taxpayers claimed \$52.2 million in long term care insurance premium costs in tax year 2010. Using an average tax rate of 3.5 percent and assuming a 4.0 percent increase in the amount of long term insurance premium costs claimed, the cost of allowing long term care premiums as a subtraction modification is about \$2.1 million reduction in individual income tax liability in tax year 2013.

The Department indicates that the forms and instructions for this deduction are currently available for tax year 2012 and could be updated for tax year 2013 within existing resources if HB 2268 is passed. The bill would require the Department to review and process claims for this deduction in FY 2014. If the Department determines that the costs associated with reviewing and processing the claims for this deduction in FY 2014 cannot be absorbed within existing resources, a revised fiscal note will be prepared. Any fiscal effect associated with HB 2268 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,



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

cc: Steve Neske, Revenue