

March 24, 2015

The Honorable Marvin Kleeb, Chairperson
 House Committee on Taxation
 Statehouse, Room 185-N
 Topeka, Kansas 66612

Dear Representative Kleeb:

SUBJECT: Fiscal Note for HB 2178 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2178 is respectfully submitted to your committee.

HB 2178 would increase the standard deduction for single individual taxpayers from \$3,000 to \$3,750. The bill would apply to tax year 2015 and each future tax year.

Estimated State Fiscal Effect				
	FY 2015 SGF	FY 2015 All Funds	FY 2016 SGF	FY 2016 All Funds
Revenue	--	--	(\$16,500,000)	(\$16,500,000)
Expenditure	--	--	\$49,000	\$49,000
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2178 would decrease State General Fund revenues by \$16.5 million in FY 2016 and by \$12.7 million in FY 2017. The decrease in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	(16,500)	2,283,500
Corporate	470,000	--	470,000

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Financial Institutions	39,000	--	39,000
Excise Taxes:			
Retail Sales	2,270,000	--	2,270,000
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	(\$ 16,500)	\$5,954,100
Other Revenues:			
Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)
Total Receipts	\$5,811,400	(\$ 16,500)	\$5,794,900

To formulate these estimates, the Department of Revenue reviewed data on standard deductions from tax year 2013. The Department indicated that approximately 485,000 single taxpayers claimed the single standard deduction in tax year 2013. Increasing the single standard deduction by \$750 would reduce taxable income by approximately \$363.8 million (485,000 x \$750). Assuming an average tax rate of 3.5 percent, the estimated reduction in tax liability of increasing the standard deduction would be approximately \$12.7 million in tax year 2015. Because the tax year and fiscal year do not cover the same months, the bill is estimated to decrease individual income tax receipts by \$16.5 million in FY 2016 and \$12.7 million in FY 2017.

The Department of Revenue indicates the bill it would require \$49,000 from the State General Fund to update forms and instructions 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. 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. Any fiscal effect associated with HB 2178 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,
Director of the Budget

cc: Jack Smith, KDOR