# STATE OF KANSAS

DIVISION OF THE BUDGET
LANDON STATE OFFICE BUILDING
900 SW JACKSON STREET, ROOM 504
TOPEKA, KS 66612

PHONE: (785) 296-2436
FAX: (785) 296-0231
larry.campbell@ks.gov
http://budget.kansas.gov

GOVERNOR JEFF COLYER, M.D.
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

March 7, 2018

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

Dear Representative Johnson:

SUBJECT: Fiscal Note for HB 2655 by Representative Hodge

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2655 is respectfully submitted to your committee.

HB 2655 would allow a taxpayer to receive a new non-refundable income tax credit for 20.0 percent of the expenditures made by the taxpayer for membership fees or dues at a fitness facility beginning in tax year 2018. The amount of the tax credit would be capped at $250 for any tax year and any unused tax credits would not be allowed to be carried forward into future tax years.

| Estimated State Fiscal Effect | | | | |
|---|---|---|---|---|
| | FY 2018 SGF | FY 2018 All Funds | FY 2019 SGF | FY 2019 All Funds |
| Revenue | -- | -- | ($51,300,000) | ($51,300,000) |
| Expenditure | -- | -- | $32,670 | $32,670 |
| FTE Pos. | -- | -- | -- | -- |

The Department of Revenue estimates that HB 2655 would decrease State General Fund revenues by $51.3 million in FY 2019. The fiscal effect to state revenues during subsequent years would be as follows:

| | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|
| State General Fund | ($54,700,000) | ($58,300,000) | ($62,100,000) | ($66,200,000) |

To formulate these estimates, the Department of Revenue reviewed data from the U.S. Census Bureau that shows total sales at fitness and recreational centers in Kansas were $172.0 million in 2012. The Department indicates that annual growth rate in this industry is approximately 6.6 percent, which would produce total sales of approximately $256.7 million in FY 2019. Allowing a 20.0 percent income tax credit is estimated to reduce State General Fund revenues by approximately $51.3 million in FY 2019 (20.0 percent x $256.7 million). The Department indicates that State General Fund estimates for FY 2019 are based on the November 2017 Consensus Revenue Estimate. State General Fund revenues in the out years assume the continuation of annual growth rates in this industry of approximately 6.6 percent.

The Department indicates that the bill would require $32,670 from the State General Fund in FY 2019 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. 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, 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 debt setoffs that will be intercepted as a result of the bill. Any fiscal effect associated with HB 2655 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Chief Budget Officer

cc: Lynn Robinson, Department of Revenue
Colleen Becker, Department of Administration