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Laura Kelly, Governor

January 26, 2022

The Honorable Adam Smith, Chairperson
House Committee on Taxation
Statehouse, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2467 by Representative Proctor, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2467 is respectfully submitted to your committee.

Calculations for Kansas income taxes are based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the federal adjusted gross income. HB 2467 would allow certain active military members to subtract up to $30,000 from income for Kansas income tax purposes beginning in tax year 2022 or up to $60,000 for married filing jointly if both are active members of the military. The subtraction modification would apply to United States military members serving in active duty in the armed forces or as guard members who attend inactive duty training or completed annual training days.

The Department of Revenue estimates that HB 2467 would decrease State General Fund revenues beginning in FY 2023. The Department indicates that it has no way to identify an individual's active military status which limits the Department's ability to directly simulate the proposed policy change.

The Department of Revenue reviewed data from the U.S. Department of Defense's Personnel, Workforce Reports & Publications that showed as of September 2021, there were 21,734 active-duty members and 10,266 National Guard/Reserve members in Kansas. Assuming all these individuals qualify for the full subtraction it would be a reduction to federal adjusted gross income of $960.0 million. The Census Bureau's American Community Survey lists active-duty armed forces average salary at $50,066 with median income around $70,000. Applying proportional differences between the federal return and the state return, the Department estimates that Kansas taxable income could be reduced by approximately $306.7 million in tax year 2022. With an effective tax rate of 3.4 percent, the tax policy choice has the potential to reduce State

General Fund revenues by $10.3 million in tax year 2022 and by $10.4 million in tax year 2023. The bill has the potential to reduce State General Fund revenues by $20.7 million in FY 2023, because it would include both 2022 and 2023 tax liabilities. For FY 2024, the bill has the potential to reduce State General Fund revenues by $10.4 million.

The Department of Revenue indicates that it would require a total $61,345 from the State General Fund in FY 2023 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. Any fiscal effect associated with HB 2467 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Michael Neth, Office of the Adjutant General