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Adam C. Proffitt, Director

Laura Kelly, Governor

March 13, 2024

The Honorable Adam Smith, Chairperson
House Committee on Taxation
300 SW 10th Avenue, Room 346-S
Topeka, Kansas 66612

Dear Representative Smith:

SUBJECT: Fiscal Note for HB 2797 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2797 is respectfully submitted to your committee.

HB 2797 increases the transferability of the High Performance Incentive Program (HPIP) tax credit from up to 50.0 percent to up to 100.0 percent for projects placed into service on and after July 1, 2024.

Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
Expenditures			
State General Fund	--	$6,000	--
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	$6,000	--
Revenues			
State General Fund	--	($8,600,000)	($25,800,000)
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Revenues	--	($8,600,000)	($25,800,000)
FTE Positions	--	--	--

The Department of Revenue estimates that HB 2797 would decrease State General Fund revenues by $8.6 million in FY 2025, $25.8 million in FY 2026, and $43.0 million in FY 2027. The Department indicates the bill will not increase the tax credit amount but would result in a larger portion of tax credits being claimed against tax liability. The amount of HPIP tax credits claimed varies each year depending on the amount of capital investment in that year and the amount of tax credits that were carried forward from the previous that tax year.

To formulate these estimates, the Department of Revenue reviewed data on the HPIP tax credit including the amount of new credits claimed each year and the amount of tax credits that get carried forward each year. Under current law that allows 50.0 percent of the tax credits to be transferred, it is estimated that 30.0 percent of claims are new tax credits with the remainder being carryforwards. Allowing 100.0 percent of the tax credit to be transferred, the Department estimates that 50.0 percent of the newly earned tax credits would be transferred and claimed over the next four tax years. The Department estimates that the number tax credits claimed will increase by $17.2 million each year before leveling off after the fourth year. The bill would take effect on July 1, 2024, with the first impact being seen in FY 2025 for projects beginning in the latter half of tax year 2024.

The Department indicates that the bill would require $6,000 from the State General Fund in FY 2025 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.

The Department of Commerce indicates that it is currently responsible for certifying companies that participate in the HPIP tax credit program. The Department may be required to answer questions from companies on the transferability of the HPIP tax credit; however, those costs could be absorbed within existing staff levels and resources. Any fiscal effect associated with HB 2797 is not reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Sherry Rentfro, Department of Commerce