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To: Legislative Budget Committee

STATE GENERAL FUND (SGF) RECEIPTS **July 2017 through February 2018, FY 2018**

Based on the revised estimate of SGF receipts in FY 2018 made last November, it was estimated that receipts in July through February would total \$4.24 billion. Actual receipts for those months were \$4.51 billion, about \$270.0 million, or 6.4 percent, above the estimate. Total receipts at the end of January were \$244.0 million, or 6.3 percent, above the estimate.

The component of SGF receipts from taxes only was \$275.4 million, or 6.8 percent, above the estimate. Total SGF taxes only, at the end of January, were \$248.6 million, or 6.7 percent, above the estimate.

Six tax sources exceeded the estimate by more than \$1.0 million: individual income tax (\$269.0 million or 15.6 percent); retail sales tax (\$6.3 million or 0.4 percent); insurance premiums tax (\$4.8 million or 5.7 percent); compensating use tax (\$2.4 million or 0.9 percent); severance tax (\$2.2 million or 10.5 percent); and financial institutions' privilege tax (\$1.1 million or 5.5 percent).

Tax sources that fell below the fiscal year-to-date estimate by more than \$1.0 million were corporate income tax (\$9.7 million or 5.5 percent) and cigarette tax (\$1.4 million or 1.7 percent).

Individual income taxes, which had exceeded the estimate through January by \$255.6 million, gained some additional ground and are now a cumulative \$269.0 million ahead of the estimate. Recall that the growth since December may be heavily influenced by the federal tax changes enacted after the November consensus meetings. Please see NOTE* at the end for detailed explanation. The Department of Revenue reports that fewer individual returns had been received through the end of February than had been received by the same time last year, indicating that even less information is available at this point in 2018. Refunds paid during February of 2018 are ahead of those for the same period last year. Withholding tax receipts for the month were ahead of the previous year's actual withholding.

Interest was above the estimate by \$3.3 million, or 37.8 percent. Transfers were \$4.1 million, or 2.6 percent, below the estimate. Also, agency earnings were \$4.6 million, or 12.7 percent, below the estimate.

This report excludes a deposit to the SGF of \$900.0 million, pursuant to issuance of a Certificate of Indebtedness. The Certificate will be discharged prior to the end of the fiscal year.

***FY 2018 Individual Income Tax Receipts**

As explained in the previous two months, a large portion of the growth in individual income tax receipts above the forecast appears to have been driven by the recently enacted change in federal tax law. In particular, the significant growth in individual estimated payments likely includes the use of certain tax-planning strategies designed to maximize state income tax payments for federal income tax deduction purposes. An unusually high level of pre-payments made for such reasons since the new federal tax law was approved in late December would reduce balance due remittances and increase refunds in future months. The Department of Revenue received additional information from other states confirming that a similar pattern of accelerated estimated payments may have occurred.

Prior to this development, a note attached in the summer and fall months had explained that for FY 2018, a greater percentage of individual income tax receipts was expected to arrive very late in the fiscal year as a result of special language in the new state income tax law (SB 30) providing no penalties or interest relative to underpayments for the restoration of tax to non-wage business income or with changes in state income tax rates rectified by April 17.

The fiscal note provided by the Department of Revenue estimates that the provisions of SB 30 will combine to produce \$591.0 million in additional revenue by the end of FY 2018 (beyond the amount that would have been collected had that legislation not been enacted). The actual impact will not be available until after the conclusion of FY 2018 on June 30.

Due to multiple and shifting tax-planning strategies that may have been implemented since last summer in response to numerous changes in both state and federal tax law, drawing meaningful conclusions about the accuracy of the overall Kansas individual income tax estimate remains extremely problematic and complicated until an analysis of tax year 2017 returns has been conducted. The Legislative Research Department and the Consensus Estimating Group will continue working with the Department of Revenue to analyze those returns and monitor receipts prior to the revision of revenue estimates again on April 20.

STATE GENERAL FUND RECEIPTS
July-February, FY 2018
(dollar amounts in thousands)

	Actual FY 2017	FY 2018			Percent change relative to:	
		Estimate*	Actual	Difference	FY 2017	Estimate
Property Tax/Fee:						
Motor Carriers	\$ 7,217	\$ 7,500	\$ 8,158	\$ 658	13.0 %	8.8 %
Income Taxes:						
Individual	\$ 1,464,905	\$ 1,722,000	\$ 1,990,975	\$ 268,975	35.9 %	15.6 %
Corporation	151,917	176,500	166,840	(9,660)	9.8	(5.5)
Financial Inst.	19,403	20,090	21,185	1,095	9.2	5.5
Total	\$ 1,636,225	\$ 1,918,590	\$ 2,179,000	\$ 260,410	33.2 %	13.6 %
Excise Taxes:						
Retail Sales	\$ 1,526,431	\$ 1,568,500	\$ 1,574,803	\$ 6,303	3.2 %	0.4 %
Comp. Use	257,341	273,700	276,072	2,372	7.3	0.9
Cigarette	84,761	82,400	81,021	(1,379)	(4.4)	(1.7)
Tobacco Prod.	5,655	5,720	5,837	117	3.2	2.0
Cereal Malt Bev.	1,072	950	1,043	93	(2.7)	9.8
Liquor Gallonage	12,963	13,720	13,427	(293)	3.6	(2.1)
Liquor Enforce.	47,496	49,400	49,175	(225)	3.5	(0.5)
Liquor Drink	7,233	7,470	7,575	105	4.7	1.4
Corp. Franchise	2,389	2,100	2,103	3	(12.0)	0.1
Severance	23,080	20,620	22,775	2,155	(1.3)	10.5
Gas	6,798	6,790	7,610	820	11.9	12.1
Oil	16,282	13,830	15,165	1,335	(6.9)	9.7
Total	\$ 1,968,421	\$ 2,024,580	\$ 2,033,831	\$ 9,251	3.3 %	0.5 %
Other Taxes:						
Insurance Prem.	\$ 86,311	\$ 84,250	\$ 89,094	\$ 4,844	3.2 %	5.7 %
Miscellaneous	759	1,360	1,555	195	104.9	14.3
Total	\$ 87,070	\$ 85,610	\$ 90,649	\$ 5,039	4.1 %	5.9 %
Total Taxes	\$ 3,698,933	\$ 4,036,280	\$ 4,311,638	\$ 275,358	16.6 %	6.8 %
Other Revenue and Receipts:						
Interest	\$ 16,759	\$ 8,750	\$ 12,054	\$ 3,304	(28.1) %	37.8 %
Transfers (net) and Receipts	34,840	156,590	152,527	(4,063)	337.8	2.6
Agency Earnings and Misc.	52,723	36,040	31,474	(4,566)	(40.3)	(12.7)
Total	\$ 104,322	\$ 201,380	\$ 196,055	\$ (5,325)	87.9 %	(2.6) %
TOTAL RECEIPTS	\$ 3,803,255	\$ 4,237,660	\$ 4,507,693	\$ 270,033	18.5 %	6.4 %

Consensus estimate as of November 2, 2017.

Excludes a Certificate of Indebtedness of \$900 million that must be redeemed prior to the end of the fiscal year.

NOTE: Details may not add to totals due to rounding.