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To: Legislative Budget Committee

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

This is the last monthly report of SGF receipts in FY 2018 based on the estimates made by the Consensus Revenue Estimating Group on November 2, 2017. The upcoming spring meeting of the Consensus Revenue Estimating Group will be reevaluating the forecast for all SGF receipts.

The component of SGF receipts from taxes only was \$314.8 million, or 7.0 percent, above the estimate. Total SGF taxes only at the end of February were \$275.4 million, or 6.8 percent, above the estimate.

Total receipts through March were above the estimate by \$306.5 million, or 6.5 percent. Total receipts at the end of February were \$270.0 million, or 6.4 percent, above the estimate.

Taxes that exceeded the estimate by more than \$1.0 million were individual income tax (\$325.7 million or 17.3 percent); severance tax (\$2.4 million or 9.4 percent); and compensating use tax (\$1.8 million or 0.6 percent).

Tax sources that fell below the estimate by more than \$1.0 million were corporation income tax (\$7.9 million or 3.9 percent); retail sales tax (\$4.2 million or 0.2 percent); and cigarette tax (\$4.0 million or 4.3 percent).

Individual income taxes, which had exceeded the estimate through January by \$255.6 million and through February by \$269.0 million, continued to gain ground relative to expectations established in November and are now a cumulative \$325.7 million ahead of that estimate. A portion of the growth in this source since December likely has been influenced by the federal tax changes enacted after the November consensus meetings. Please see NOTE* at the end of this memorandum for a detailed explanation.

The Department of Revenue reports 914,703 returns had been processed through March 31 this year compared with 933,175 through the same date in 2017. Refunds were down \$10.5 million for the month (\$89.3 million in 2018 versus \$99.8 million in 2017). Withholding tax receipts for the month were \$43.5 million ahead of withholding for March of 2017. Additional tax filing and processing information will be provided to the Consensus Group in the next several weeks.

As noted earlier, the Consensus Revenue Estimating Group will soon be reevaluating the overall state of the economy and its implications for sales, income, and all other SGF tax

sources. The Consensus Group is meeting on April 20 to revise the FY 2018 estimate, as well as the estimates for FY 2019.

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 over the previous three 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 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 Revenue 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-March, 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	\$ 8,760	\$ 8,950	\$ 9,798	\$ 848	11.8 %	9.5 %
Income Taxes:						
Individual	\$ 1,603,779	\$ 1,882,000	\$ 2,207,732	\$ 325,732	37.7 %	17.3 %
Corporation	176,272	199,500	191,629	(7,871)	8.7	(3.9)
Financial Inst.	22,919	23,490	23,516	26	2.6	0.1
Total	\$ 1,802,970	\$ 2,104,990	\$ 2,422,877	\$ 317,887	34.4 %	15.1 %
Excise Taxes:						
Retail Sales	\$ 1,706,707	\$ 1,749,300	\$ 1,745,072	\$ (4,228)	2.2 %	(0.2) %
Comp. Use	285,655	303,700	305,531	1,831	7.0	0.6
Cigarette	97,249	94,100	90,054	(4,046)	(7.4)	(4.3)
Tobacco Prod.	6,289	6,350	6,448	98	2.5	1.5
Cereal Malt Bev.	1,182	1,050	1,109	59	(6.2)	5.6
Liquor Gallonage	14,457	15,220	14,781	(439)	2.2	(2.9)
Liquor Enforce.	53,784	55,900	55,168	(732)	2.6	(1.3)
Liquor Drink	8,179	8,440	8,542	102	4.4	1.2
Corp. Franchise	3,343	3,050	3,106	56	(7.1)	1.8
Severance	28,038	25,050	27,413	2,363	(2.2)	9.4
Gas	8,792	8,020	8,827	807	(0.4)	10.1
Oil	19,246	17,030	18,586	1,556	(3.4)	9.1
Total	\$ 2,204,883	\$ 2,262,160	\$ 2,257,224	\$ (4,936)	2.4 %	(0.2) %
Other Taxes:						
Insurance Prem.	\$ 110,164	\$ 108,750	\$ 109,501	\$ 751	(0.6) %	0.7 %
Miscellaneous	868	1,580	1,860	280	114.3	17.7
Total	\$ 111,032	\$ 110,330	\$ 111,361	\$ 1,031	0.3 %	0.9 %
Total Taxes	\$ 4,127,645	\$ 4,486,430	\$ 4,801,260	\$ 314,830	16.3 %	7.0 %
Other Revenue and Receipts:						
Interest	\$ 17,553	\$ 9,600	\$ 13,728	\$ 4,128	(21.8) %	43.0 %
Transfers (net) and Receipts	28,297	149,650	142,516	(7,134)	403.6	(4.8)
Agency Earnings and Misc.	54,604	38,140	32,821	(5,319)	(39.9)	(13.9)
Total	\$ 100,454	\$ 197,390	\$ 189,065	\$ (8,325)	88.2 %	(4.2) %
TOTAL RECEIPTS	\$ 4,228,099	\$ 4,683,820	\$ 4,990,325	\$ 306,505	18.0 %	6.5 %

Consensus estimate as of November 2, 2017.

Excludes a Certificate of Indebtedness of \$900.0 million that must be redeemed prior to the end of the fiscal year.

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