

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

68-West-Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 □ FAX (785) 296-3824

kslegres@klrd.ks.gov

<http://www.kslegislature.org/klrd>

February 1, 2018

To: Legislative Budget Committee

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

This is the third month of experience under the revised estimate of SGF receipts in FY 2018 made by the Consensus Estimating Group on November 2, 2017. The figures in both the "Estimate" and "Actual" columns under FY 2018 on the following table include actual amounts received in July through October. Consequently, this report details the difference between estimated and actual receipts in November through January.

Total receipts through January FY 2018 were \$244.0 million, or 6.3 percent, above the estimate. The component of SGF receipts from taxes only was \$248.6 million, or 6.7 percent, above the estimate. Total SGF receipts from taxes only, at the end of December, were \$83.6 million, or 2.7 percent, above the estimate. Total receipts at the end of December were \$83.0 million, or 2.5 percent, above the estimate.

Four tax sources **exceeded** the estimate by more than \$1.0 million: individual income tax (\$255.6 million or 15.8 percent); severance tax (\$2.4 million or 14.9 percent); insurance premiums tax (\$2.4 million or 3.6 percent); and financial institutions tax (\$1.2 million or 6.2 percent).

Three tax sources that **fell below** the estimate by more than \$1.0 million: corporation income tax (\$10.9 million or 6.4 percent); cigarette tax (\$2.0 million or 2.7 percent); and retail sales tax (\$1.2 million or 0.1 percent).

Corporation income tax, which had been below the last month's forecast through December by \$4.8 million, continued its decline and is now \$10.9 million below the forecast for the period.

Sales taxes, which include receipts from many transactions occurring during the December holiday shopping season, are now a cumulative \$1.2 million below the November forecast.

Individual income taxes, which had exceeded the prior estimate through December by \$87.1 million are now a cumulative \$255.6 million ahead of the estimates. Keep in mind this result may be heavily influenced by the federal tax changes enacted well after the November consensus meetings. Please see NOTE* at the end for detailed explanation.

Interest earnings exceeded the estimate by \$2.1 million. Agency earnings and miscellaneous were below the estimate by \$3.6 million, or 10.6 percent. Transfers were slightly below the estimate at \$3.1 million, or 1.9 percent.

Total SGF receipts through January of FY 2018 were \$665.4 million, or 19.1 percent, above FY 2017 receipts for the same period. Tax receipts only for the same period were above FY 2017 by \$571.1 million, or 17.0 percent.

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

***FY 2018 Individual Income Tax Receipts**

As explained last month, 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 previous 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-January, 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	\$ 6,057	\$ 6,400	\$ 7,071	\$ 671	16.7 %	10.5 %
Income Taxes:						
Individual	\$ 1,378,780	\$ 1,622,000	\$ 1,877,646	\$ 255,646	36.2 %	15.8 %
Corporation	145,800	171,000	160,099	(10,901)	9.8	(6.4)
Financial Inst.	19,002	19,700	20,928	1,228	10.1	6.2
Total	\$ 1,543,582	\$ 1,812,700	\$ 2,058,673	\$ 245,973	33.4 %	13.6 %
Excise Taxes:						
Retail Sales	\$ 1,358,789	\$ 1,400,400	\$ 1,399,157	\$ (1,243)	3.0 %	(0.1) %
Comp. Use	225,887	241,200	241,819	619	7.1	0.3
Cigarette	76,013	73,800	71,779	(2,021)	(5.6)	(2.7)
Tobacco Prod.	5,038	5,100	5,147	47	2.2	0.9
Cereal Malt Bev.	964	850	855	5	(11.3)	0.6
Liquor Gallonage	11,517	12,220	12,061	(159)	4.7	(1.3)
Liquor Enforce.	42,807	44,600	44,290	(310)	3.5	(0.7)
Liquor Drink	6,402	6,620	6,750	130	5.4	2.0
Corp. Franchise	1,798	1,500	1,479	(21)	(17.7)	(1.4)
Severance	18,004	16,080	18,480	2,400	2.6	14.9
Gas	4,739	5,520	6,315	795	33.3	14.4
Oil	13,265	10,560	12,165	1,605	(8.3)	15.2
Total	\$ 1,747,219	\$ 1,802,370	\$ 1,801,817	\$ (553)	3.1 %	(0.0) %
Other Taxes:						
Insurance Prem.	\$ 69,871	\$ 67,250	\$ 69,650	\$ 2,400	(0.3) %	3.6 %
Miscellaneous	682	1,190	1,326	136	94.4	11.4
Total	\$ 70,553	\$ 68,440	\$ 70,976	\$ 2,536	0.6 %	3.7 %
Total Taxes	\$ 3,367,411	\$ 3,689,910	\$ 3,938,537	\$ 248,627	17.0 %	6.7 %
Other Revenue and Receipts:						
Interest	\$ 13,965	\$ 7,850	\$ 9,924	\$ 2,074	(28.9) %	26.4 %
Transfers (net) and Receipts	44,395	166,030	162,938	(3,092)	267.0	(1.9)
Agency Earnings and Misc.	50,814	34,140	30,535	(3,605)	(39.9)	(10.6)
Total	\$ 109,174	\$ 208,020	\$ 203,397	\$ (4,623)	86.3 %	(2.2) %
TOTAL RECEIPTS	\$ 3,476,585	\$ 3,897,930	\$ 4,141,934	\$ 244,004	19.1 %	6.3 %

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.