COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3823H.01I
Bill No.: HB 1428
Subject: Tax Credits; Taxation and Revenue - Income; Taxation and Revenue - Property; Property, Real and Personal; Taxation and Revenue - General; Department of Revenue
Type: Original
Date: January 23, 2024

Bill Summary: This proposal modifies the "circuit breaker" tax credit by increasing the maximum upper limit and property tax credit amounts.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue Fund*	More or Less than ($237,322)	More or Less than ($237,322)	More or Less than ($237,322)
Total Estimated Net Effect on General Revenue	**More or Less than ($237,322)**	**More or Less than ($237,322)**	**More or Less than ($237,322)**

*Oversight reflects revenue reduction stemming from Section 135.010 representing additional new joint filers being able utilize the Circuit Breaker due to the $1,000 increase to the deductible income. Oversight assumes this could potentially reach an impact of more than $250,000 depending on the number of filers.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Sections 135.010 &135.030 Senior Property Tax

Officials from the **Department of Revenue (DOR)** note:

Background of Current PTC Program
This proposal attempts to make modifications to the Senior Property tax credit (PTC). The PTC provides two tax credits, one to homeowners and one to renters that pay property tax. In order to qualify for the PTC program there are income eligibility requirements, and a person must:

Be over the age of 65,
Or 100% disabled,
Or a 100% disabled veteran,
Or at least 60 and the qualifying widow of someone in the previous categories.

For homeowners, the PTC provides a credit to offset the amount of actual property tax paid by the homeowner. The credit is up to $1,100 in property tax actually paid but the credit amount phases out as an individual's income rises. The homeowner's credit is for those with incomes of less than $30,000. It should be noted, there is no limit on the number of individuals who can receive the credit annually.

The PTC also currently provides a credit to offset the amount of property tax included in a taxpayer's rent payment. The tax credit for renters is up to $750 in property tax paid and to qualify a renter must have an income less than $27,500. The amount of the credit does phase out as income rises and there is no limit on the number of renters who can receive the credit annually.

This proposal says that all modifications of the property tax credit will begin on January 1, 2025. DOR notes that the majority of the PTC tax returns are received between January and April of each year. DOR assume that the changes made by this proposal would fully impact FY 2025.

Proposed Changes
This proposal would increase the income allowance for PTC married homeowners from $4,000 to $5,000 starting in FY 2025. This proposal would also increase the maximum income allowance for homeowners from $30,000 to $40,000 starting in FY 2025. Then in FY 2026, this proposal says that the $40,000 income limit can be adjusted by inflation.

Impact of Changes
Increasing the income allowance for the married filing combined homeowners could potentially allow some to qualify for a higher credit amount by lowering their adjusted gross income. Using

DOR's internal taxpayer data, DOR was able to estimate **$237,322** in credits could potentially be claimed. This would be a minimal impact to general revenue.

It should be noted that this proposal does not change the tax credit phase-out calculation in Section 135.030.2. That calculation phases-out the amount of the credit as a person's income rises. Therefore, people with the lowest income of $14,000 receive the full amount of the credit while those with the maximum income receive $0 credit. Currently people with an income of $30,000 (current limit) receive a credit worth $0.

So this proposal's attempt to raise the maximum income limit without changing the formula means that the new taxpayers with incomes between $30,000 and $40,000 would still only be eligible for $0 tax credits. Therefore, this change does not do anything and would not result in any fiscal impact to general revenue.

Officials from the **DOR** assume the proposal will have no fiscal impact on their respective organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for DOR.

Officials from the **Office of Administration – Budget & Planning (B&P)** note:

<u>Section 135.010</u> would increase the income allowance for PTC claimants by $1,000 for married (filing combined) homeowners starting with calendar year 2025. B&P notes that because this provision is effective for calendar year 2025, it will begin affecting state revenues in FY25 as annual PTC claims are filed beginning in January. B&P further notes that the peak PTC claims are January through April each year.

B&P notes that increasing the income allowance for married filing combined homeowners could allow them to qualify for a higher credit amount by lowering their adjusted gross income. Based on 2022 PTC claims, B&P estimates that under this provision, existing married filing combined homeowners could receive a total of up to **$237,322** in additional credits. B&P notes that this amount does not include any additional people that may qualify after the income allowance has been increased; however, B&P anticipates that such increase would result in a minimal additional GR loss.

Therefore, B&P estimates that this provision could reduce GR by up to $237,322 annually beginning in FY25.

<u>Section 135.030</u> would increase the maximum income allowed for homeowners. The maximum homeowner income would increase to $40,000 beginning with calendar year 2025. Beginning January 1, 2026, the maximum upper limit for homeowners shall be increased annually by the rate of inflation.

B&P notes that while this proposal would increase the maximum income threshold, it does not make any changes to the tax credit phase-out calculation in subsection 135.030.2. That calculation is designed to phase-out the property tax credit to $0 once the current maximum incomes ($27,500 for renters and $30,000 for owners) have been reached. Therefore, only increasing the maximum income threshold will increase the number of individuals who qualify for the PTC, but their credit amount will be $0. Therefore, this provision will not impact GR.

Oversight, through additional conversation via e-mail, where B&P identified approximately 7,500 filers potentially qualifying for the increase income allowance ($1,000) in Section 135.010. The B&P further stated the estimate does not account for people receiving the max property tax paid, so it overestimates the overall impact; however, at the same time does not include the few new people who would qualify, so it underestimates it.

Oversight will reflect an impact that could be more or less than the estimate provided by B&P beginning FY 2025. Oversight assumes this could potentially reach an impact of more than $250,000 depending on the number of filers.

Oversight notes the overall average tax credit, under the proposal, would total $32 ($237,322/7,500) per each joint filer.

Oversight notes the Section 135.030 allows for increase of the maximum amount of income to $40,000 and inflationary adjustments annually thereafter of the amount. However, B&P and DOR both assume the proposed change will not increase the utilization of the tax credit due to the rate of reduction remaining the same as current rate. Therefore, Oversight will note zero impact for this provision in the fiscal note.

Officials from the **City of Kansas City** assume the proposal will have no fiscal impact on their respective organization.

<u>Rule Promulgation</u>

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with its core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
<u>Revenue Reduction</u> – Section 135.010 increase in joint filer income deduction ($1,000)	More or Less <u>than ($237,322)</u>	More or Less <u>than ($237,322)</u>	More or Less <u>than ($237,322)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	**More or Less than <u>($237,322)</u>**	**More or Less than <u>($237,322)</u>**	**More or Less than <u>($237,322)</u>**

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>$0</u>	**<u>$0</u>**	**<u>$0</u>**

<u>FISCAL IMPACT – Small Business</u>

No direct fiscal impact to small businesses would be expected as a result of this proposal.

<u>FISCAL DESCRIPTION</u>

This bill amends statutes related to senior citizens property tax relief, also known as the Circuit Breaker tax credit.

This tax credit is available to eligible senior citizens and disabled veterans for a portion of their real estate taxes or rent that such individuals have paid for the year. Currently, the tax credit is limited to qualifying taxpayers with an income of $30,000 or less in the case of a homestead owned and occupied by a claimant for the entire year.

Currently, the tax credit is limited to qualifying taxpayers with an income of $30,000 or less in the case of a homestead owned and occupied by a claimant for the entire year. An additional exemption of $4,000 is provided when a qualifying taxpayer's spouse resides at the same address, bringing the total credit to $34,000 for a married homestead owner.

This bill increases such maximum income in the following manner:

For an unmarried homeowner: from $30,000, now $40,000; For a married homeowner: the additional exemption is increased from $4,000 to $5,000 making the total credit now $45,000.

Beginning January 1, 2026, the maximum upper limits shall be increased annually for inflation based on the Consumer Price Index.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration – Budget & Planning
Office of the Secretary of State
Joint Committee on Administrative Rules
City of Kansas City

Julie Morff
Director
January 23, 2024

Ross Strope
Assistant Director
January 23, 2024