

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2016 REGULAR SESSION**

**MEASURE**

2016 BR NUMBER **0122**

**HOUSE** BILL NUMBER **52**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE AN ACT relating to the impact of refunds of natural resources severance and processing tax upon distributions from the local government economic assistance fund and declaring an emergency.**

**SPONSOR Representative Denham**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT     NO IMPACT     INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE     LOCAL     FEDERAL

BUDGET UNIT(S) IMPACT: \_\_\_\_\_

FUND(S) IMPACT:  GENERAL  ROAD  FEDERAL  RESTRICTED AGENCY \_\_\_\_\_  OTHER

**FISCAL SUMMARY**

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
<b>REVENUES</b>				
<b>EXPENDITURES</b>				
<b>NET EFFECT</b>				

( ) indicates a decrease/negative

**MEASURE’S PURPOSE:** HB 52, if enacted, would reduce the upfront financial impact on counties and cities receiving funds from the Local Government Economic Assistance Fund (LGEAF) which may occur as a result of large tax refunds to taxpayers that reduce the amount of state mineral severance and processing tax collections deposited in that fund.

**PROVISIONS/MECHANICS:** This bill amends KRS 42.470 to provide that, effective July 1, 2016, no mineral producing county shall have its quarterly LGEAF distribution reduced by greater than 50% as a result of a refund of the severance and processing tax imposed on minerals severed in that county. If a refund occurs and a county’s allocated share of the refund amount is greater than 50% of the quarterly distribution due to that county, the remainder of the refund to be offset shall carry forward to successive quarters as necessary until the refund amount has been accounted for in full.

**FISCAL EXPLANATION:** Over time, HB 52 would have no impact on either state General Fund expenditures to the LGEAF, nor to the amount of money distributed to any mineral

producing county through that fund.

Under current law, one-half of the revenues collected from the state severance and processing tax on minerals is returned to counties (and 10% of the county allocation is provided to cities within each county) through the LGEAF on the basis of tax collected on minerals severed in each county. Any tax refund that is issued is “netted” against tax collections during the tax period in which the refund is paid, resulting in a reduction in revenues available for distribution during that period. If quarterly distribution amounts are insufficient to offset the refund, no payment is made to counties and cities and the excess refund amount is carried forward until satisfied.

This bill would reduce the likelihood of a large negative impact on a county, and the cities within the county, in any given quarter by providing that a quarterly LGEAF distribution may be reduced by no more than 50% as a result of this type of refund adjustment. Any amount of the local refund portion remaining to be paid would be carried forward to successive quarters as necessary until the refund amount is fully satisfied, thereby smoothing out the impact of the refund over time. As a result of this limitation, the bill could have the effect of increasing a given quarterly General Fund expenditure to the LGEAF compared to what would occur under present law. However, over time the full local portion of any refund would still be satisfied through reductions in successive LGEAF distributions.

Tax refunds may arise in a multitude of taxpayer-specific situations, and tax collections/LGEAF distributions in a given county may fluctuate, therefore it is impossible to estimate to what degree any adjustments may occur as provided in this bill. To the extent that quarterly distribution adjustments as provided in this bill do occur, they will present additional administrative and record-keeping duties to both the Department of Revenue and the Department for Local Government, however staff estimates that the expense of the increased duties will be minimal.

**DATA SOURCE(S): LRC staff**

**PREPARER: Eric Kennedy NOTE NUMBER: 51 REVIEW: JRS DATE: 2/1/2016**