

SESSION OF 2023

SUPPLEMENTAL NOTE ON SENATE BILL NO. 33

As Amended by Senate Committee of the Whole

Brief*

SB 33, as amended, would make changes to income taxes. The bill would provide for a cost of living adjustment for the standard deduction amounts, expand the exemption of Social Security benefits, create an exemption for retirement plan income, make changes to the Homestead Property Tax Refund Program, and create subtraction modifications related to net operating losses and certain federal tax credit disallowances.

Standard Deduction Cost of Living Adjustment

The bill would provide, beginning in tax year 2023, for the Kansas individual income tax standard deduction amounts to be annually increased by the cost of living adjustment (COLA) provided for by Section 1(f)(3) of the Internal Revenue Code.

Social Security Benefits

The bill would expand the Kansas individual income tax exemption for Social Security benefits to include all federally taxable Social Security benefits beginning in tax year 2023.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

Retirement Plan Income

The bill would exempt all federally taxable income received under all retirement plans beginning in tax year 2024.

Homestead Property Tax Refund Changes

The bill would make changes to the refund option providing for a refund of the amount of tax in excess of the base year amount under the Homestead Property Tax Refund Act.

[*Note:* The Homestead Property Tax Refund Act includes three different refund options. The other two refund options would not be impacted by the bill.]

The bill would, for purposes of only this refund option, exclude from the definition of “household income” all Social Security benefits, of which one-half are currently included in the definition.

The bill would increase the maximum appraised value of an eligible claimant’s home in the base year from \$350,000 to \$595,000 and provide for future increases to this amount based upon the average percentage change in statewide residential valuation of existing residential real estate for the preceding 10 years.

The changes would be retroactive to tax year 2022, and the deadline to file claims for tax year 2022 would be extended from April 15, 2023, to April 15, 2024.

Net Operating Loss Subtraction Modification

The bill would create a subtraction modification allowing taxpayers who carried back federal net operating losses in tax years 2018 through 2020 pursuant to the federal

Coronavirus Aid, Relief, and Economic Security (CARES) Act to subtract such amounts from their income for purposes of determining Kansas adjusted gross income. Taxpayers would be permitted to carry forward such net operating loss for up to 20 years if the amount exceeds the Kansas adjusted gross income of the taxpayer.

The bill would extend the deadline for eligible taxpayers to file amended returns for tax years 2018 through 2020 until April 15, 2025.

***Federal Tax Credit Disallowance Subtraction
Modifications***

The bill would enact subtraction modifications in determining Kansas adjusted gross income equal to 25 percent of the amount of federal disallowance related to the Work Opportunity Tax Credit and similar credits under section 280C of the federal Internal Revenue Code and, effective for tax year 2020 and all years thereafter, 25 percent of the amount of federal disallowance related to the Employee Retention Tax Credit.

Background

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by representatives of AARP of Kansas and the Wichita Regional Chamber of Commerce. Proponents stated the bill would allow for benefits to be taxed as a social safety net benefit rather than income and would allow for greater economic activity by benefit recipients in the state of Kansas.

Written-only proponent testimony was provided by representatives of the Kansas Policy Institute and the League of Kansas Municipalities and a private citizen.

No other testimony was provided.

Senate Committee of the Whole

The Senate Committee of the Whole amended the bill to insert the provisions relating to retirement plan income and the contents of SB 30; SB 40; SB 80, as amended by the Senate Committee on Assessment and Taxation; and SB 81. The background information for those bills is provided below.

SB 30 (Standard Deduction COLA)

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by a representative for Americans for Prosperity, stating the bill would protect low-income Kansans from inflation and maintain Kansans' after-tax purchasing power.

Written-only proponent testimony was provided by a representative of the Kansas Policy Institute.

No other testimony was provided.

SB 40 (Net Operating Loss [NOL] Subtraction Modification)

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by representatives of BridgeBuilder Tax and Legal Services and the National Federation of Independent Businesses. Proponents stated the bill would allow Kansas taxpayers to benefit from 2020 changes to the federal tax code.

No other testimony was provided.

SB 80 (Homestead Property Tax Refund Changes)

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, written-only **proponent** testimony was provided by a representative of the Kansas Policy Institute.

Neutral testimony was provided by a representative of the Military Officers Association of America-Kansas.

No other testimony was provided.

The Senate Committee amended the bill to increase the maximum appraised value of a claimant's home and provide for retroactivity of the provisions of the bill.

SB 81 (Federal Tax Credit Disallowance Subtraction Modifications)

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by a representative of the Kansas Restaurant and Hospitality Association, generally stating the bill would allow employers who benefit from federal tax credits to still be able to deduct otherwise deductible expenses on their state income taxes.

No other testimony was provided.

Fiscal Information

The Department of Revenue indicates enactment of the bill would have the following impact on State General Fund receipts.

	(\$ in millions)		
Provision	FY 2024	FY 2025	FY 2026
Standard Deduction COLA	\$ (24.5)	\$ (32.4)	\$ (42.3)
Social Security Exemption	(147.6)	(117.2)	(120.7)
Retirement Plan Exemption	(79.8)	(266.8)	(269.4)
Homestead Property Tax Refund	(12.9)	(13.2)	(17.9)
NOL Carrybacks	(8.4)	(8.4)	-
Employment Credit Disallowances	(7.0)	(2.5)	(1.1)
Total	\$ (280.2)	\$ (440.5)	\$ (451.4)

The specific fiscal effect associated with the bill is not reflected in *The FY 2024 Governor's Budget Report*. A different version of an expansion of the Social Security

benefits income tax exemption is reflected in *The FY 2024 Governor's Budget Report*.

Taxation; income tax; Social Security benefits; retirement plan income; net operating losses; disallowances; Employee Retention Credit; Work Opportunity Tax Credit; Homestead Program; refunds; subtraction modifications