SESSION OF 2017

SUPPLEMENTAL NOTE ON SENATE BILL NO. 188

As Amended Without Recommendation by
Senate Committee

Brief*

SB 188 would make a number of changes in the state individual income tax structure.

The bill would repeal, effective for tax year 2017, the exemption for non-wage business income in effect since tax year 2013. Taxpayers could also begin claiming certain non-wage business income losses in conformity with federal treatment (but would not be able to file amended returns for previous tax years when such losses were not eligible to be claimed for Kansas income tax purposes). Special subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales would be repealed.

Kansas itemized deductions beginning in tax year 2017 generally would conform with federal itemized deductions. (Legislation enacted in 2015 had repealed most Kansas itemized deductions otherwise available under federal law except for charitable contributions and 50 percent of the federal amounts allowed for mortgage interest and property taxes paid.)

Individual income tax rates would be increased beginning in tax year 2017 such that the state would be utilizing a three-bracket system of 2.70 percent, 4.60 percent, and 6.45 percent. (Current law provides for a two-bracket system with rates of 2.70 and 4.60 percent.) Additional formulaic provisions that could have provided for rate

*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
reductions in certain future years based on growth in selected State General Fund tax receipts would be repealed.

Finally, certain member contributions made on a pre-tax basis to Kansas Board of Regents’ retirement plans established pursuant to KSA 74-4925 would become subject to income tax beginning in tax year 2017.

Background

Individual income tax legislation originally enacted in 2012 provided for the non-wage business income exemption.

A three-bracket system (3.50 percent, 6.25 percent, and 6.45 percent), which had remained largely unchanged since the early 1990s, was also amended at that time to become a two-bracket system (with rates set at 3.0 and 4.9 percent for tax year 2013 and all years thereafter). Additional changes in that 2012 legislation included the repeal of various tax credits, removal of renters from the Homestead Property Tax Refund program, and increases in standard deductions.

Follow-up legislation enacted in 2013 made a number of reductions to itemized and standard deductions, provided for additional income tax rate reductions to be phased in through tax year 2018, and established formulaic relief that could occur in future years.

A third major round of changes to the state’s tax structure enacted in 2015 included removing some of the income tax rate reductions scheduled to occur through tax year 2018, adjusting the formulaic provisions, reducing itemized deductions further, increasing the sales tax rate, and increasing the cigarette tax rate.

At the public hearing on SB 188, proponents included the Kansas Association of School Boards, the Kansas Contractors’ Association, and the Kansas Center for
Economic Growth. Opponents included the Kansas Policy Institute and the Kansas Chamber.

On February 14, the Senate Committee on Assessment and Taxation inserted a provision regarding the taxation of certain contributions to the Board of Regents’ retirement plans. The Senate Committee recommended the bill be passed as amended, without recommendation.

The following table provides additional details regarding the income tax brackets under prior law, current law, and the proposal in the bill:

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<tbody>
<tr>
<td>$0-$30,000</td>
<td>3.50%</td>
<td>2.70%</td>
<td>2.70%</td>
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<tr>
<td>$30,001-$60,000</td>
<td>6.25%</td>
<td>4.60%</td>
<td>4.60%</td>
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<tr>
<td>$60,001-$70,000</td>
<td>6.45%</td>
<td>4.60%</td>
<td>4.60%</td>
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<tr>
<td>$70,001 and above</td>
<td>6.45%</td>
<td>4.60%</td>
<td>6.45%</td>
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The latest fiscal information available from the Department of Revenue indicated the bill would be expected to increase State General Fund receipts as follows ($ in millions):

- FY 2018 – $702.5;
- FY 2019 – $513.8;
- FY 2020 – $520.4;
- FY 2021 – $527.1; and
- FY 2022 – $533.8.