

SESSION OF 2006

**SUPPLEMENTAL NOTE ON SENATE SUBSTITUTE
FOR HOUSE BILL NO. 2573**

As Recommended by Senate Committee on
Assessment and Taxation

Brief*

Senate Sub. for HB 2573 would make a number of changes relating generally to income tax related provisions.

Deductions for "529" Program Contributions

Senate Sub. for HB 2573 would expand, beginning in tax year 2007, the income tax deduction authorized relative to certain contributions to qualified tuition programs established pursuant to section 529 of the federal Internal Revenue Code. Under current law, the income tax deduction of up to \$3,000 (or up to \$6,000 for married couples filing jointly) is available only for contributions to the Kansas qualified tuition program. The bill would authorize the deduction for contributions to other states' programs.

Income Tax Checkoffs

The bill also would require that two new checkoffs be placed on the Kansas individual income tax form beginning in tax year 2006. One such checkoff would be for Kansas military emergency relief, and all moneys that taxpayers contribute for this purpose would be used for helping military families defray the costs of food, housing, utilities and medical services incurred when a member is on active military duty; or more generally for other services associated with support of Kansas military personnel and their families. The second checkoff would be for funding breast cancer research at the University of Kansas Cancer Center relating to the prevention, treatment and cure of the disease. Moneys contributed for this purpose could not be used for the funding of administrative personnel or positions and would be deemed to be supplemental to any other funding otherwise appropriated to the cancer center. Such funds also would be required to be used in

*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>

collaboration with other research institutions, including members of the Midwest Cancer Alliance and faculty at state institutions. The center would be required to report annually to various standing committees on the use of the checkoff funds for breast cancer research.

Adoption Income Tax Credits

The legislation further would enhance the current Kansas income tax credit for certain qualified adoption expenses beginning in tax year 2006. Current law sets the Kansas credit at 25 percent of the federal adoption income tax credit. The bill would increase the state credit to 50 percent of the federal credit for adoptions of children who are Kansas residents; and to 75 percent of the federal credit for adoptions of "special-needs" children who are Kansas residents. The bill also would eliminate a restriction that currently prohibits taxpayers from carrying forward unused portions of adoption income tax credits for more than five years.

Net-Operating-Loss Carryback Refunds

The bill also would relax an existing limitation on income tax refunds resulting from farm net-operating-loss carrybacks (NOLs) to allow the Department of Revenue to pay out about \$0.25 million more in refunds than under current law.

Tax Credit Effectiveness Evaluation

Finally, the bill would require taxpayers claiming certain tax credits beginning with tax year 2006 to provide information to the Department of Revenue to assist in the evaluation of the effectiveness of the tax credit programs pursuant to KSA 74-99b35. The requirement would be imposed for claimants seeking business and job development credits and high performance incentive program credits. Included in the required information would be data on actual jobs created; additional payroll generated; actual jobs retained; additional revenue generated; additional sales generated; and total employment and payroll. Credits could not be denied solely on the basis of the contents of the information provided by taxpayers.

Background

The original bill dealt with the expansion of the income tax deduction relative to contributions to other states' section 529 programs.

The Senate Assessment and Taxation Committee on May 1 created a substitute bill at the recommendation of the revisor after incorporation the provisions of SB 384 as amended by the House Taxation Committee (income tax checkoffs); SB 465 as amended by the Senate Assessment and Taxation Committee (adoption credits); SB 444 as amended by the Senate Assessment and Taxation Committee (NOL carrybacks); and SB 551 as amended by the Senate Assessment and Taxation Committee (tax credit effectiveness evaluation).

Fiscal notes indicated that FY 2007 income tax receipts would be expected to be reduced by about \$1.910 million; and that the Department of Revenue would incur about \$0.218 million in increased administrative costs. The total net fiscal impact therefore would be \$2.128 million.

(\$ in millions)	
	<u>FY 2007</u>
Section 529 deductions	\$1.200
Adoption tax credits	\$0.460
NOL refunds	\$0.250
Total reduction in receipts	\$1.910
Checkoff admin. costs	\$0.160
Evaluation effectiveness admin. costs	\$0.058
Total new expenditures	\$0.218
Total fiscal impact	\$2.128