

HOUSE BILL No. 2103

By Committee on Taxation

1-18

9 AN ACT concerning taxation; relating to the franchise tax; rates; phase
10 out; amending K.S.A. 2006 Supp. 79-5401 and repealing the existing
11 section.
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. K.S.A. 2006 Supp. 79-5401 is hereby amended to read as
15 follows: 79-5401. (a) (1) *Subject to the limitations provided in subsection*
16 *(g), for any foreign or domestic for profit corporation, or professional*
17 *corporation or association, duly registered and authorized to do business*
18 *in Kansas by the secretary of state and which has taxable equity attrib-*
19 *utable to Kansas of \$100,000 or more, such entity shall pay an annual*
20 *franchise tax to the secretary of revenue for the tax year commencing*
21 *after December 31, 2005, at the rate of .125%, for the tax year com-*
22 *mencing after December 31, 2006, at the rate of .083%, and for the tax*
23 *year commencing after December 31, 2007, at the rate of .041%, of such*
24 *entity's taxable equity attributable to Kansas, except that such annual fran-*
25 *chise tax for any such entity shall not exceed \$20,000.*

26 (2) *Subject to the limitations provided in subsection (g), for any for-*
27 *foreign or domestic limited liability company, foreign or domestic limited*
28 *partnership or foreign or domestic limited liability partnership duly reg-*
29 *istered and authorized to do business in Kansas by the secretary of state*
30 *and which has net capital accounts located in or used in this state at the*
31 *end of the taxable year as required to be reported on the federal part-*
32 *nership return of income of \$100,000 or more, such entity shall pay an*
33 *annual franchise tax to the secretary of revenue for the tax year com-*
34 *mencing after December 31, 2005, at the rate of .125%, for the tax year*
35 *commencing after December 31, 2006, at the rate of .083%, and for the*
36 *tax year commencing after December 31, 2007, at the rate of .041%, of*
37 *the net capital accounts located in or used in this state at the end of the*
38 *taxable year as required to be reported on the federal partnership return*
39 *of income, or for a one-member LLC taxed as a sole proprietorship which*
40 *has net book value of the LLC as calculated on an income tax basis located*
41 *in or used in this state at the end of the taxable year of \$100,000 or more,*
42 *for the tax year commencing after December 31, 2005, at the rate of*
43 *.125%, for the tax year commencing after December 31, 2006, at the rate*

1 of .083%, and for the tax year commencing after December 31, 2007, at
2 the rate of .041%, of net book value of the LLC as calculated on an income
3 tax basis located in or used in this state at the end of the taxable year,
4 except that such annual franchise tax for any such entity shall not exceed
5 \$20,000.

6 (3) Subject to the limitations provided in subsection (g), for any busi-
7 ness trust duly registered and authorized to do business in Kansas by the
8 secretary of state and which has corpus as shown on its balance sheet at
9 the end of the taxable year as required to be reported to the secretary of
10 revenue of \$100,000 or more, such entity shall pay an annual franchise
11 tax to the secretary of revenue for the tax year commencing after Decem-
12 ber 31, 2005, at the rate of .125%, for the tax year commencing after
13 December 31, 2006, at the rate of .083%, and for the tax year commencing
14 after December 31, 2007, at the rate of .041%, of the corpus as shown on
15 its balance sheet at the end of the taxable year as required to be reported
16 to the secretary of revenue or in the case of a foreign business trust which
17 has a corpus which is located in or which it uses or intends to use in this
18 state as shown on its balance sheet at the end of the taxable year as
19 required to be reported to the secretary of revenue of \$100,000 or more,
20 for the tax year commencing after December 31, 2005, at the rate of
21 .125%, for the tax year commencing after December 31, 2006, at the rate
22 of .083%, and for the tax year commencing after December 31, 2007, at
23 the rate of .041%, of that portion of the corpus which is located in or
24 which it uses or intends to use in this state as shown on its balance sheet
25 at the end of the taxable year as required to be reported to the secretary
26 of revenue, except that the annual franchise tax for any such entity shall
27 not exceed \$20,000. Such balance sheet shall be as of the end of the tax
28 period, certified by the trustee, fairly and truly reflecting the trust assets
29 and liabilities and specifically setting out its corpus, and, in the case of a
30 foreign business trust, fairly and truly reflecting an allocation of its moneys
31 and other assets as between those located, used or to be used, in this
32 state and those located, used or to be used elsewhere.

33 (b) (1) Every corporation or association, business trust, limited lia-
34 bility company, limited partnership or limited liability partnership subject
35 to taxation under this act, regardless of whether such entity has a franchise
36 tax liability, shall make a return, stating specifically such information as
37 may be required by the forms, rules and regulations of the secretary of
38 revenue, which return shall include a balance sheet listing all assets and
39 liabilities as of the end of the tax year, as reported in the federal income
40 tax return on form 1120 or, if no such federal return is required to be
41 filed, such balance sheet information as otherwise required by the sec-
42 retary, and such further information showing the allocation or apportion-
43 ment calculations in computing the amount of the franchise tax. The

1 return of a corporation or association shall be signed by the president,
2 vice-president, treasurer, assistant treasurer, chief accounting officer or
3 any other officer so authorized to act. The fact that an individual's name
4 is signed on a return shall be *prima facie* evidence that such individual is
5 authorized to sign such return on behalf of such corporation. In cases
6 where receivers, trustees in bankruptcy or assignees are operating the
7 property or business of corporations, such receivers, trustees, or assignees
8 shall make returns for such corporations in the same manner and form
9 as corporations are required to make returns. Any tax due on the basis of
10 such returns shall be collected in the same manner as if collected from
11 the corporation for which the return is made. The returns of a limited
12 liability partnership shall be signed by a partner of the limited liability
13 partnership. The returns of a limited liability company shall be signed by
14 a member of the limited liability company.

15 (2) All returns shall be filed in the office of the director of taxation
16 on or before the 15th day of the fourth month following the close of the
17 taxable year, except as provided in subsection (b) (3).

18 (3) The director of taxation may grant a reasonable extension of time
19 for filing returns in accordance with rules and regulations of the secretary
20 of revenue. Whenever any such extension of time to file is requested by
21 a taxpayer and granted by the director, no penalty authorized by K.S.A.
22 79-3228, and amendments thereto, shall be imposed if 90% of the liability
23 is paid on or before the original due date.

24 (c) (1) All taxes imposed under the provisions of the Kansas franchise
25 tax act shall be paid on the 15th day of the fourth month following the
26 close of the taxable year. When the tax as shown to be due on a return is
27 less than \$5, such tax shall be canceled and no payment need be remitted
28 by the taxpayer.

29 (2) The director of taxation may extend the time for payment of the
30 tax, or any installment thereof, for a reasonable period of time not to
31 exceed six months from the date fixed for payment thereof. Such exten-
32 sion may exceed six months in the case of a taxpayer who is abroad.
33 Interest shall be charged at the rate prescribed by K.S.A. 79-2968, and
34 amendments thereto, for the period of such extension.

35 (d) The provisions of K.S.A. 79-3226, 79-3228, 79-3228a, 79-3229,
36 79-3230, 79-3233, 79-3233a, 79-3233b, 79-3233g, 79-3233h, 79-3233i,
37 79-3234, 79-3235 and 79-3236, and amendments thereto, shall apply to
38 the administration and enforcement of this section.

39 (e) All taxes paid pursuant to the provisions of this act shall be
40 rounded off to the nearest \$1, and unless other disposition is specifically
41 provided by law, the taxes collected under the provisions of this act and
42 all overpayments which may not be refunded under this section shall be
43 remitted to the state treasurer in accordance with the provisions of K.S.A.

1 75-4215, and amendments thereto. Upon receipt of each such remittance,
2 the state treasurer shall deposit the entire amount in the state treasury
3 to the credit of the state general fund. The secretary of revenue shall not
4 refund any overpayment of franchise taxes which is equal to \$5 or less,
5 shall not credit any domestic corporation or foreign corporation, associ-
6 ation, business trust, limited liability company, limited partnership or lim-
7 ited liability partnership with any amount which may not be refunded
8 under this section, and shall not require reimbursement for any under-
9 payment of franchise taxes which is less than \$5. Franchise tax refunds
10 shall be paid to the claimant from the income tax refund fund upon war-
11 rants of the director of accounts and reports pursuant to vouchers ap-
12 proved by the director of taxation, but no warrant issued hereunder shall
13 be drawn in an amount less than \$5. No interest shall be allowed on any
14 payment made to a claimant pursuant to this act.

15 (f) As used in this section: (1) "Act" means the Kansas franchise tax
16 act;

17 (2) "net book value as calculated on an income tax basis located in or
18 used in this state" means the net book value of a limited liability company
19 multiplied by a percentage which is the average of the following three
20 percentages: (A) The average value of the limited liability company's real
21 and tangible personal property owned or rented and used in this state
22 during the tax period divided by the average total value of the limited
23 liability company's real and tangible personal property owned or rented
24 and used during the tax period; (B) the total amount of compensation
25 paid by the limited liability company in this state during the tax period
26 divided by the total amount of compensation paid everywhere by the
27 limited liability company during the tax period; and (C) the total sales of
28 the limited liability company in this state during the tax period divided
29 by the total sales of the limited liability company everywhere during the
30 tax period. If a limited liability company has no real and tangible property
31 owned or rented and used, compensation paid or sales made for the tax
32 period, then the average percentage shall be determined by using only
33 those percentages for property, compensation and sales which reflect
34 property or activity;

35 (3) "net capital accounts located in or used in this state" means the
36 net capital accounts of a limited partnership or limited liability partner-
37 ship as stated on the federal income tax return multiplied by a percentage
38 which is the average of the following three percentages: (A) The average
39 value of such entity's real and tangible personal property owned or rented
40 and used in this state during the tax period divided by the average total
41 value of such entity's real and tangible personal property owned or rented
42 and used during the tax period; (B) the total amount of compensation
43 paid by such entity in this state during the tax period divided by the total

1 amount of compensation paid everywhere by such entity during the tax
2 period; and (C) the total sales of such entity in this state during the tax
3 period divided by the total sales of such entity everywhere during the tax
4 period. If such entity has no real and tangible personal property owned
5 or rented and used, compensation paid or sales made for the tax period,
6 then the average percentage shall be determined by using only those
7 percentages for property, compensation and sales which reflect property
8 or activity;

9 (4) "shareholder's equity" means the sum of: (1) Paid-in capital stock,
10 except that paid-in capital stock shall not include any capital stock issued
11 by a corporation and reacquired by such corporation through gift, pur-
12 chase or otherwise and available for resale or retirement; (2) capital paid
13 in, in excess of par; and (3) retained earnings, all as stated on such cor-
14 poration's federal income tax return;

15 (5) "shareholder's equity attributable to Kansas" means the share-
16 holder's equity of a corporation multiplied by a percentage which is the
17 average of the following three percentages: (A) The average value of the
18 corporation's real and tangible personal property owned or rented and
19 used in this state during the tax period divided by the average total value
20 of the corporation's real and tangible personal property owned or rented
21 and used during the tax period; (B) the total amount of compensation
22 paid by the corporation in this state during the tax period divided by the
23 total amount of compensation paid everywhere by the corporation during
24 the tax period; and (C) the total sales of the corporation in this state during
25 the tax period divided by the total sales of the corporation everywhere
26 during the tax period. If a corporation has no real and tangible personal
27 property owned or rented and used, compensation paid or sales made for
28 the tax period, then the average percentage shall be determined by using
29 only those percentages for property, compensation and sales which reflect
30 property or activity; and

31 (6) "taxable equity attributable to Kansas" means shareholder's equity
32 attributable to Kansas.

33 (g) The provisions of this section shall apply to all tax years com-
34 mencing after December 31, 2003, *but shall not apply to any tax year*
35 *commencing after December 31, 2008.*

36 (h) The provisions of this section shall be known and may be cited as
37 the Kansas franchise tax act.

38 Sec. 2. K.S.A. 2006 Supp. 79-5401 is hereby repealed.

39 Sec. 3. This act shall take effect and be in force from and after its
40 publication in the statute book.