

SESSION OF 2006

**CONFERENCE COMMITTEE REPORT BRIEF
SENATE BILL NO. 432**

As Agreed to May 5, 2006

Brief*

SB 432 would make a number of changes relative to income taxation and would establish a task force to promote adoption.

Adoption Provisions

The bill 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.

The bill further would create a task force to promote adoption. The 11-member task force would be appointed as follows: eight members appointed by House and Senate leadership of which two would be from the public and six from the Legislature; and three appointed by the Governor. Forty-five days would be allowed for appointment of members after the effective date of the act. The task force would be charged with providing statewide policy recommendations encouraging adoption. The task force would be required to conduct an analysis of adoption in Kansas based upon specific questions dealing with tax credits and issues involved in decisions of birth parents when faced with unintended pregnancy. The task force would be required to submit a final report to the Legislature and to the Governor by February 15, 2007.

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kldr>

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 - Employment of Ex-Military

Employers who employ members of the Kansas Army and Air National Guard or members of a Kansas Reserve units who were federally activated and deployed on or after August 7, 1990, would be allowed income tax credits for either of tax years 2006, 2007, or 2008 equal to 25 percent of the amount paid as salary and compensation, provided (a) such employers had not employed such persons prior to activation and deployment; and (b) such persons were unemployed at the time of the qualifying employment.

The credits would be limited to a maximum of \$7,000 and would be non-refundable, but any unused portion could be carried forward against a future tax year's liability.

Deductions for "529" Program Contributions

An additional provision 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 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.

Withholding Tax – Electronic Filing of Statements

The legislation also would require entities filing withholding tax statements with the Department of Revenue to file such statements electronically when reporting information for 51 or more employees.

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.

Conference Committee Action

The Conference Committee on May 5 agreed to remove the bill's original provisions, which related to the definition of "traffic offense," and insert the income tax provisions, which had previously been in Sen. Sub. for HB 2573, SB 358, SB 551, SB 465, SB 444, and HB 3017.

Background

Based on the latest information available, the bill would be expected to have the following impact:

(\$ in millions)

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	Total thru <u>FY 2013</u>
Adoption Credits	-\$0.460	-\$0.483	-\$0.507	-\$0.533	-\$0.559	-\$0.587	-\$0.616	-\$3.745
Farm NOL Refunds	-\$0.250	-\$0.250	-\$0.250	-\$0.250	-\$0.250	-\$0.250	-\$0.250	-\$1.750
Military empl credit	-\$1.400	-\$1.470	-\$1.544	\$0.000	\$0.000	\$0.000	\$0.000	-\$4.414
Sec 529 deductions	\$0.000	-\$1.200	-\$1.260	-\$1.323	-\$1.389	-\$1.459	-\$1.532	-\$8.162
Total receipts reduction	-\$2.110	-\$3.403	-\$3.561	-\$2.106	-\$2.198	-\$2.296	-\$2.398	-\$18.071
Checkoff admin costs	-\$0.160	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	-\$0.160
Net state impact	-\$2.270	-\$3.403	-\$3.561	-\$2.106	-\$2.198	-\$2.296	-\$4.796	-\$20.629

taxation income