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MEMORANDUM

To: Senate Committee on Assessment and Taxation
From: Office of Revisor of Statutes
Date: March 3, 2025
Subject: Senate Bill No. 277, As Introduced

Summary

Senate Bill No. 277 relates to individual income tax and would exempt certain qualified tips from state income tax beginning in tax year 2026.

Senate Bill No. 277 would amend K.S.A. 2024 Supp. 79-32,117 to provide a subtraction modification in an amount equal to the qualified tips received during the taxable year that are included on statements furnished to the employer pursuant to I.R.C. Section 6053(a) and are included in federal adjusted gross income of the taxpayer. The amount of the subtraction modification would be limited each year to \$25,000 for each individual receiving qualified tips.

Definitions

- "Qualified tip" means any cash tip received by an individual in the course of such individual's employment in an occupation that traditionally and customarily received tips on or before December 31, 2024, as provided by the secretary of revenue. The secretary would publish a list of such occupations.
- "Cash tip" includes, but is not limited to, tips received from customers, tips received from other employees under any tip-sharing arrangement and charged tips, such as credit and debit card charged tips, distributed to the employee by the employer.
- "Qualified tip" shall not include any amount received by an individual in the course of employment by an employer if such individual had, for the preceding taxable year, compensation, within the meaning of I.R.C. Section 414(q)(4), from such employer in excess of the amount in effect under I.R.C. Section 414(q)(1)(B)(i).

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Federal References

I.R.C. Section 6053(a) provides in part that:

"Every employee who, in the course of his employment by an employer, receives in any calendar month tips which are wages (as defined in section 3121(a) or section 3401(a)) or which are compensation (as defined in section 3231(e)) shall report all such tips in one or more written statements furnished to his employer on or before the 10th day following such month."

I.R.C. Section 414(q)(4) defines "compensation" as having the meaning given such term by Section 415(c)(3), which generally defines "participant's compensation" as compensation of the participant from the employer for the year.

The threshold amount used in the definition of highly compensated employee in effect under I.R.C. Section 414(q)(1)(B)(i) is adjusted annually and for tax year 2025 is \$160,000. (IRS Notice 2024-80)

The bill would take effect from and after its publication in the statute book.