SESSION OF 2025

CONFERENCE COMMITTEE REPORT BRIEF
HOUSE BILL NO. 2231

As Agreed to March 27, 2025

Brief*

HB 2231 would modify Kansas income tax personal exemption provisions, redefine "income" for a refund option within the Homestead Property Tax Refund Act, amend the apportionment of income of multistate corporations and make associated changes, and exempt certain personal property from taxation.

Personal Exemption Changes

The bill would establish, beginning in tax year 2024, that head-of-household filers would be allowed an additional personal exemption of $2,320 and would increase the additional personal exemption for 100 percent permanently disabled military veterans to the same amount.

"Tax Freeze" Refund Program Changes

The bill would, for purposes of the refund option providing for a refund of the amount of tax in excess of the base year amount under the Homestead Property Tax Refund Act, provide for the definition of income, for tax year 2025 and all years thereafter, to be the Kansas adjusted gross income of the taxpayer.

[*Note:* The Homestead Property Tax Refund Act includes three different refund options. The definition of income for the other two refund options would not be impacted by the bill.]

Corporation Income Tax Changes

The bill would require, beginning in tax year 2027, most corporations with income in multiple states to apportion their income for Kansas income tax purposes based upon the share of the corporation's total sales that occur in Kansas. The bill would also provide for a reduction to the corporation income tax rate and a deferred tax deduction for certain corporations.

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*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 https://klrd.gov/

The bill would also make various technical and conforming changes, including a conforming amendment to Kansas' adoption of the Multistate Tax Compact to provide for the implementation of the provisions of the bill.

Sales Factor Apportionment

The bill would provide for corporation income of multistate corporations, currently generally apportioned using a three-factor formula consisting of sales, property, and payroll factors, to be apportioned using only the sales factor beginning in tax year 2027.

The bill also would adopt, beginning in tax year 2027, market-based sourcing in determining sales within the state for the purposes of apportioning income. The bill would specify market-based sourcing rules for specific situations of sales of services, sales of intangible property, interest from loans, payment of dividends, and sales of communications services.

For financial institutions, the receipts factor, as defined in continuing law, would be used in lieu of the sales factor.

A provision requiring the apportionment of income for railroads and interstate motor carriers based on the share of miles operated in Kansas would be repealed at the end of tax year 2026 and such entities would have their income apportioned in accordance with provisions applicable to other corporations.

Manufacturers of alcoholic liquor would continue to have income apportioned using the three-factor formula as under current law.

Corporation Income Tax Rate Reduction

The bill would provide for a reduction to the normal tax rate for corporations beginning in tax year 2029 based upon the amount corporation income tax receipts in FY 2028 exceed those of FY 2027, as certified by the Director of the Budget in consultation with the Director of Legislative Research.

The Secretary of Revenue would be required to compute the reduction in the rate rounded down to the nearest 0.1 percent that would result in an amount of reduced tax approximately equal to the amount certified by the Director of the Budget.

The Secretary of Revenue would be required to publish any new tax rate under provisions of the bill by October 1, 2028.

Deferred Tax Deduction

The bill would allow publicly traded companies whose financial statements are prepared in accordance with Generally Accepted Accounting Principles to claim a deferred tax deduction from the taxpayer's net business income before apportionment in an amount as specified by the bill.

The deduction, which the bill would allow to be claimed after applying other available tax credits, would be equal to the increase in the taxpayer's deferred tax impact caused by the requirement of the use of the sales factor for income apportionment divided by the corporation tax rate and the taxpayer's apportionment factor multiplied by 1/10. The bill would authorize claiming the deduction in ten equal installments, beginning in tax year 2025.

The deduction, which could not be adjusted based upon events subsequent to the calculation of the deduction amount and could be claimed after the application of other available tax credits, could be carried forward and applied in future years until fully utilized if it is greater than the taxpayer's net business income before apportionment.

Taxpayers seeking to claim such deduction would be required to file a statement with the Secretary of Revenue on or before July 1, 2027, specifying the total amount of claimed deduction.

Personal Property Tax Exemption

The bill would exempt, beginning in tax year 2026, the following personal property from all property or ad valorem taxes:

- Any snowmobile, all-terrain vehicle, recreational off-highway vehicle, motorcycle manufactured for off-road use, or golf cart, that is not operated upon any highway;
- Any motorized bicycle, electric-assisted bicycle, electric-assisted scooter, electric personal assistive mobility device, or motorized wheelchair, as those terms are defined in law;
- Any trailer having a gross weight of 15,000 pounds or less, used exclusively for personal use and not the production of income;
- Any watercraft; and
- Any watercraft trailer designed to launch, retrieve, transport, and store watercraft, and any watercraft motor designed to operate watercraft on the water.

Conference Committee Action

The Conference Committee agreed to the House version of HB 2231 and agreed to further amend the bill to insert:

- The definition of income for the "tax-freeze" refund provision from the Senate version of HB 2231;
- The provisions of HB 2336, as passed by the House; and
- The provisions of SB 10, as amended by the House Committee on Taxation.

Background

The Conference Committee report contains provisions from HB 2231, HB 2336, and SB 10. Background information for each bill is provided below.

HB 2231 (Personal Exemption Changes and "Tax-Freeze" Refund Change)

The bill was introduced by the House Committee on Taxation at the request of a representative of the Kansas Department of Revenue (KDOR).

House Committee on Taxation

In the House Committee hearing, **proponent** testimony was provided by the Secretary of Revenue, who stated the bill would clarify that the intent of the Legislature is to provide a personal exemption for head-of-household filers as has been the practice of KDOR since related changes were made to statute in 1998.

No other testimony was provided.

The House Committee amended the bill to increase the personal exemption for disabled military veterans. [*Note:* The Conference Committee retained this amendment.]

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by the Secretary of Revenue and by a representative of the Military Officers Association of America. The proponents generally stated the bill would clarify the law to reflect current practice of KDOR and would cause the extra personal exemption amount afforded to certain disabled veterans to equal the amount of the dependent personal exemption.

No other testimony was provided.

The Senate Committee amended the bill to insert the amended contents of SB 215. Background information for SB 215 is provided below. [*Note:* The Conference Committee retained only the definition of income portion of this amendment and did not retain the provisions modifying the income and home valuation thresholds.]

SB 215 (Property Tax Refund Program Changes)

SB 215 was introduced by Senators Corson, Faust-Goudeau, Francisco, Haley, Holscher, Pettey, Schmidt, and Sykes.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by a representative of the Military Officers Association of America, generally stating the bill should be amended to exclude additional categories of disabled veteran income from the definition of household income.

Written-only proponent testimony was provided by representatives of AARP of Kansas and the Kansas Association of Realtors and by a private citizen.

No other testimony was provided.

The Senate Committee amended the bill to replace the definition of household income with Kansas adjusted gross income, reduce the home valuation eligibility threshold from $595,000 to $450,000, and to clarify the base year for those made eligible for the program as a result of the increase in the residential valuation limitation. [*Note:* The Conference Committee retained only the definition of income portion of this amendment and did not retain the provisions modifying the income and home valuation thresholds.]

HB 2336 (Corporation Income Tax Changes)

The bill was introduced by the House Committee on Taxation at the request of a representative of the Kansas Chamber of Commerce.

House Committee on Taxation

In the House Committee hearing, **proponent** testimony was provided by a representative of the Kansas Chamber of Commerce, generally stating the bill would move Kansas toward a method of corporation income tax apportionment used by most states while including provisions to lessen negative impacts to corporations that might be adversely impacted by the change.

Written-only proponent testimony was provided by representatives of Cargill; Hallmark; Kansas Bankers Association; Kansas City, Kansas Chamber of Commerce; Kansas Grain and Feed Association; and Pfizer.

Written-only **opponent** testimony was provided by representatives of the Center on Budget and Policy Priorities and Kansas Action for Children.

No other testimony was provided.

The House Committee amended the bill to eliminate a three-year option period for the use of the sales factor with implementation in 2027 and to allow manufacturers of alcoholic liquor to continue to use the three-factor formula for apportionment. [*Note:* The Conference Committee retained these amendments.]

House Committee of the Whole

The House Committee of the Whole amended the bill to:

- Commence the application of market-based sourcing for sales in 2027;
- Modify dates associated with the corporation income tax rate reduction;

- Make the repeal of mileage-based apportionment for railroads and interstate motor carriers simultaneous with the implementation of sales factor apportionment; and

- Make various technical and conforming changes, including the conforming change to Kansas' adoption of the Multistate Tax Compact.

[*Note:* The Conference Committee retained these amendments.]

SB 10 (Personal Property Tax Exemption)

The bill was introduced by Senators Tyson, Alley, Blasi, Bowers, Bowser, J.R. Claeys, Joseph Claeys, Clifford, Dietrich, Erickson, Fagg, Faust-Goudeau, Gossage, Klemp, Kloos, Masterson, Murphy, Owens, Peck, Petersen, Rose, Shallenburger, Shane, Starnes, Thomas, Thompson, and Warren.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by representatives of the Kansas County Appraisers Association and the Military Officers Association of America.

The proponents generally stated the bill would exempt certain kinds of residential property that are already exempt when used for agriculture or commercial purposes, provide tax relief for citizens while minimizing the impact of the resulting revenue deficit by distributing the burden among all other classes of property, and reduce government costs associated with appraisal and processing of requests to the Board of Tax Appeals.

Written-only proponent testimony was provided by a representative of the Kansas Policy Institute and by two private citizens.

Written-only **opponent** testimony was provided by a private citizen.

No other testimony was provided.

The Senate Committee amended the bill to include aircraft, as defined by the amendment, among the exempt types of property. [*Note:* The Conference Committee did not retain this amendment.]

House Committee on Taxation

In the House Committee hearing, **proponent** testimony was provided by Senator Owens and a representative of the Kansas County Appraisers Association. The proponents generally stated recreational property is taxed at a significantly higher rate than motor vehicles, that the amount of property tax collected on such property is not worth the cost and administrative burden required to collect the tax, and that excluding recreational property and aircraft from property taxation makes Kansas more competitive with other states where such property is not taxed.

Written-only proponent testimony was provided by Representative Fairchild.

Opponent testimony was provided by a representative of the Kansas Association of Counties, who stated the types of property included in the original bill might not be worth the administrative expense of collecting the tax, but the inclusion of aircraft in the exemption would unnecessarily reduce local government revenues.

Written-only opponent testimony was provided by a representative of the League of Kansas Municipalities.

No other testimony was provided.

The House Committee amended the bill to exclude aircraft from the types of property exempted by the bill. [*Note:* The Conference Committee retained this amendment.]

Fiscal Information

HB 2231 (Personal Exemption Changes and "Tax-Freeze" Refund Change)

According to the Department of Revenue, the personal exemption increase for disabled veterans would reduce State General Fund (SGF) receipts by approximately $20,000 per year beginning in FY 2026.

According to the Department of Revenue, the change of the definition of income in the "tax-freeze" refund program would reduce SGF receipts by $4.6 million in FY 2026, $6.3 million in FY 2027, and $8.1 million in FY 2028.

HB 2336 (Corporation Income Tax Changes)

According to the Department of Revenue, HB 2336, as amended, would reduce State General Fund receipts. The timing and amount of the reduction of receipts is uncertain. The changes to the apportionment provisions would reduce state receipts beginning in FY 2028. The reduction of receipts associated with the deferred tax deduction is anticipated to commence in FY 2035.

SB 10 (Personal Property Tax Exemption)

According to estimates provided by the Department of Revenue, SB 10, as introduced, would decrease revenues by $189,749 in tax year 2026, including $126,499 from the Educational Building Fund and $63,250 from the State Institutions Building Fund. [*Note*: The provisions of the bill agreed to by the Conference Committee are identical to the bill as introduced.]

Less property tax revenue would also affect State expenditures for aid to school districts. To the extent that less property tax revenue would be available from the State's uniform mill levy to fund expenditures for school districts, the State would be required to provide an additional $2,529,984 in state aid from the State General Fund through the school finance formula.

According to the fiscal note prepared by the Division of Budget on the bill, as introduced, local governments that levy a property tax would also receive less revenue; however, the amount of reduced property tax revenues was not estimated. The bill would have similar results in future years. The Department of Revenue indicates the bill would have no fiscal effect on its operations.

The Kansas Association of Counties and the League of Kansas Municipalities indicate the bill would reduce the amount of local property tax collections that are used in part to finance local governments. However, they do not have data to provide an accurate estimate of the lower property tax collection amounts to make a precise estimate of the fiscal effect on local governments. The fiscal effect would vary by location, although not necessarily proportionally.

Taxation; income tax; property tax; apportionment; sales factor; personal property; tax exemption; personal exemption; head of household; disabled veterans; property tax refunds; definition of income

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