Tax Reduction and Reform; Senate Sub. for HB 2117

Senate Sub. for HB 2117 implements a number of major changes in income taxes effective for tax year 2013; repeals a severance tax exemption; and restricts participation in the Homestead Property Tax Refund program.

Income Tax Provisions

Rate Reduction and Restructuring

One major part of the bill collapses the current three-bracket structure for individual income taxes (3.5, 6.25, and 6.45 percent) into a two-bracket system using rates of 3.0 and 4.9 percent.

Business Income Exemption

The bill totally exempts certain non-wage business income that had been subject to individual income tax (income reported by LLC's, Subchapter-S Corporations, and sole proprietorships on lines 12, 17, and 18 of federal form 1040). Taxpayers availing themselves of this exemption are excluded from receiving another credit designed to eliminate the liability of certain resident individuals pursuant to KSA 2011 Supp. 79-32,266.

Tax Credits

Additional sections repeal tax credits previously allowed for individuals (but not to corporations) for food sales tax rebates; abandoned well plugging; adoption expenses; agritourism; alternative fuel equipment expenditures; assistive technology; child and dependent care expenses; child day care expenses; disabled access expenditures; environmental compliance expenditures; individual development account contributions; law enforcement training center contributions; small employer health benefit plan contributions; swine facility improvement expenditures; port authority contributions; small employer health benefit plan contributions; swine facility improvement expenditures; telecommunications property tax payments; venture capital contributions; and certain temporary assistance to family contributors.

Standard Deduction

Other language increases the standard deduction amount for single head-of-household filers from $4,500 to $9,000, and for married taxpayers filing jointly from $6,000 to $9,000.

Other Income Tax Provisions

Additional provisions of the bill eliminate a subtraction modification for certain long-term care insurance expenditures and eliminate the ability of individuals to utilize the income tax deduction for expensing enacted in 2011.

Severance Tax Provisions

The two-year new pool severance tax exemption is repealed relative to all oil production from any pool producing in excess of 50 barrels per day, provided the initial production occurs on and after July 1, 2012.

Homestead Program

Beginning in tax year 2013, renters will no longer be eligible to participate in the Homestead Property Tax Refund program.

SGF Effects

The bill is expected to have the following impact on SGF receipts (dollars in millions):

SGF Receipts

	Income	Severance	Total
FY 2013	$ (249.2)	$ 18.0	$ (231.2)
FY 2014	(847.8)	45.0	(802.8)
FY 2015	(884.3)	60.0	(824.3)
FY 2016	(924.2)	70.0	(854.2)
FY 2017	(967.9)	75.0	(892.9)
FY 2018	(1,013.7)	80.0	(933.7)
6-yr Total	$ (4,887.1)	$ 348.0	$ (4,539.1)