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SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2560

As Amended by House Committee on Taxation

Brief*

HB 2560, as amended, would implement a number of major changes in income taxes effective for tax year 2013 before repealing the tax altogether in tax year 2019; repeal a severance tax exemption; restrict participation in the Homestead Property Tax Refund program; and maintain the current 6.3 percent sales tax rate beginning in FY 2014 (when the rate is currently scheduled to fall to 5.7 percent).

Income Tax Provisions

Rate Reduction and Restructuring

One major part of the bill would take the current three-bracket structure for individual income taxes (3.5, 6.25, and 6.45 percent) and collapse it into a two-bracket system using rates of 3.0 and 4.9 percent. Individual and corporation income taxes would be repealed beginning in tax year 2019.

Business Income Exemption

The bill would exempt certain non-wage business income that under current law is 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).

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

Itemized Deductions

The bill further would repeal most itemized deductions (with the exception of the deduction for mortgage interest, which effectively would be retained in the form of an additional subtraction modification available to those taxpayers who itemize deductions at the federal level) available under current law, including deductions for charitable contributions, property taxes paid, and state and local sales taxes paid.

Tax Credits

Additional sections would repeal tax credits currently allowed to individuals (but not to corporations) for the earned income tax credit (EITC); 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; historic preservation expenditures; angel investor contributions; community service 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.

Other Income Tax Provisions

Additional provisions of the bill would eliminate a subtraction modification for certain long-term care insurance expenditures and for contributions to the Learning Quest program; 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 would be 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.

Sales Tax Provisions

The sales and use tax rate, which is currently scheduled to be reduced from 6.3 to 5.7 percent on July 1, 2013, would remain at 6.3 percent, and various disposition of revenue sections of the law would be adjusted to provide that all the additional money go to the State General Fund (SGF) and none to the State Highway Fund (SHF).

Homestead Program

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

Background

The original bill was recommended by the Governor. The House Taxation Committee amended the bill on March 15 to remove a proposed repeal of the itemized deduction for mortgage interest; and to add the provision repealing the income tax after tax year 2018.

The latest fiscal information available from the Department of Revenue indicates that the House Committee version of the bill would be expected to have the following impact on SGF receipts:

	FY 13	FY 14	FY 15	FY 16	FY 17	5-yr Total
Income	$ (106.0)	$ (533.8)	$ (554.0)	$ (577.2)	$ (603.7)	$ (2,374.7)
Severance	$ 16.1	$ 18.8	$ 32.8	$ 45.6	$ 56.8	$ 170.1
Sales/Use	$	$ 251.0	$ 287.1	$ 297.1	$ 306.0	$ 1,141.2
Net Impact	$ (89.9)	$ (264.0)	$ (234.1)	$ (234.5)	$ (240.9)	$ (1063.4)