

**Testimony Supporting House Bill 2110**  
**House Taxation Committee**  
**February 6, 2013**  
**Richard Cram**

Chairman Carlson and Members of the Committee:

The Department of Revenue respectfully submits the following in support of House Bill 2110:

The Governor's tax plan in House Bill 2110 proposes:

- **Lowering individual income tax rates:**
  - **2.5 percent** rate for income under \$15,000 (\$30,000 married filing jointly) for tax years 2014 and 2015
  - **1.9 percent** rate for income under \$15,000 (\$30,000 married filing jointly) for tax year 2016 and tax years thereafter
  - **3.5 percent** rate for income of \$15,000 and over (\$30,000 married filing jointly) for tax year 2017 and tax years thereafter
  - *Note: Current rates are 3.0 percent and 4.9 percent*
- **Reducing Kansas itemized deductions** by disallowing real property taxes and mortgage interest included in federal itemized deductions, effective for Tax Year 2013 and after
- **Holding the sales tax rate steady** at 6.3 percent, with 4/10 of a cent going to the highway fund as planned in FY14, as data show that sales tax rates have the least negative impact on economic growth relative to other tax types.
- Beginning at the end of fiscal year 2015, **reducing individual income tax rates**, when actual state general fund receipts from taxes exceed the actual state general fund receipts from taxes for the immediately preceding fiscal year by more than 4%.

**OVERVIEW**

**Lowering individual income tax rates:**

The imposition of Kansas income tax, and the rate of tax, is controlled by K.S.A. 79-32,110. The new rate structure for individuals is found in Section 1, on page 1 and 2, of the Bill.

### **Reducing Kansas itemized deductions for Tax Year 2013 and after:**

If an individual taxpayer uses itemized deductions on their federal return they may use itemized deductions on their Kansas return. The starting point for determining the amount of Kansas itemized deductions is federal itemized deductions. Then certain modifications are made to determine the amount of Kansas itemized deductions.

The Bill amends K.S.A. 79-32,120 to disallow real property taxes and mortgage interest included in federal itemized deductions. The new provisions are found in Section 2 on page 3 of the Bill.

### **Holding the sales tax rate steady:**

The rate of the Kansas sales tax is set by K.S.A. 79-3603. Effective July 1, 2010 the rate increased from 5.3% to 6.3%. Under current law it will be reduced to 5.7 percent effective July 1, 2013. The amendments to K.S.A. 79-3603 and K.S.A. 79-3620, found in Section 3, page 3, and Section 4, page 8 (and page 10), respectively, hold the sales tax steady at 6.3%, with 4/10 of a cent going to the highway fund as planned in FY14. Similarly, the amendments to K.S.A. 79-3703 and K.S.A. 79-3710, found in Section 5, page 11, and Section 6, page 11 (and page 13), respectively, hold the use tax steady at 6.3%, with 4/10 of a cent going to the highway fund as planned in FY14.

### **Income Tax Rate Reduction:**

New Section 7, page 14, provides for the reduction of income tax rates when actual state general fund receipts from taxes exceeds the actual state general fund receipts from taxes for the immediately preceding fiscal year by more than 4%, beginning in fiscal year 2015. Top marginal rates for individual tax will be reduced to rates estimated by the Secretary of Revenue. Reduced rates will be published by October 15 of the year prior to their effect. Lower tax receipts will not trigger an automatic rate increase.

## **SECTION BY SECTION SUMMARY**

Section 1, page 1. K.S.A. 79-32,110 imposes the Kansas income tax and establishes the rate of tax. The amendments to this statute reduce, over time, the bottom rate from 3.0% to 1.9% and the top rate from 4.9% to 3.5%. The rates for all other taxpayers are left unchanged.

Section 2, page 3. K.S.A. 79-32,120 permits an individual to use itemized deductions, rather than the standard deduction found in K.S.A. 79-32,119, if the individual uses itemized deductions on their federal income tax return. The starting point for determining the amount of Kansas itemized deductions is federal itemized deductions; certain modifications are made to

determine the amount of Kansas itemized deductions. The amendments to this statute disallow real property taxes and mortgage interest included in federal itemized deductions from being included in Kansas itemized deductions. This change would apply to Tax Year 2013 and after.

Sections 3 and 4, pages 3 and 8 (and page 10). K.S.A. 79-3603 imposes the Kansas retailers' sales tax, and K.S.A. 79-3620 deals with depositing and distributing the tax. The amendments hold the sales tax steady at 6.3%, with 4/10 of a cent going to the highway fund as planned in FY14.

Sections 5 and 6, page 11 (and page 13). K.S.A. 79-3703 imposes the Kansas consumers' compensating use tax, and K.S.A. 79-3710 deals with depositing and distributing the tax. The amendments hold the use tax steady at 6.3%, with 4/10 of a cent going to the highway fund as planned in FY14.

New Section 7, page 14. Beginning in FY 2015, provides for the reduction of income tax rates when actual state general fund receipts from taxes exceeds the actual state general fund receipts from taxes for the immediately preceding fiscal year by more than 4%. The top marginal rates for individual income tax will be reduced to rates estimated by the Secretary of Revenue. Reduced rates will be published by October 15 of the year prior to their effect. Tax year 2016 should be the earliest year that this provision could affect. Lower tax receipts will not trigger a rate increase.

Section 8, page 14. This section repeals statutes included in the 2012 supplement.

Section 9, page 14. This is the effective date provision.

**MEMORANDUM**

**To:** Mr. Steve Anderson, Director  
Division of Budget

**From:** Kansas Department of Revenue

**Date:** 02/01/2013

**Subject:** House Bill 2110  
Introduced as a House Bill

**Brief of Bill**

Senate Bill 78, as introduced, amends K.S.A. 79-32,110 to reduce individual income tax rates for:

tax years 2014 and 2015 to:

Married filing joint returns:	
Not over \$30,000	2.5% of Kansas taxable income
Over \$30,000	\$750 plus 4.9% of taxable income over \$30,000
All other individuals:	
Not over \$15,000	2.5% of Kansas taxable income
Over \$15,000	\$375 plus 4.9% of taxable income over \$15,000

tax year 2016 to:

Married filing joint returns:	
Not over \$30,000	1.9% of Kansas taxable income
Over \$30,000	\$570 plus 4.9% of taxable income over \$30,000
All other individuals:	
Not over \$15,000	1.9% of Kansas taxable income
Over \$15,000	\$285 plus 4.9% of taxable income over \$15,000

tax year 2017 to:

Married filing joint returns:	
Not over \$30,000	1.9% of Kansas taxable income
Over \$30,000	\$570 plus 3.5% of taxable income over \$30,000
All other individuals:	
Not over \$15,000	1.9% of Kansas taxable income

Over \$15,000

\$285 plus 3.5% of taxable income over \$15,000

Section 2 amends K.S.A. 79-32,120 to disallow real property taxes and mortgage interest included in federal itemized deductions.

Section 3 amends K.S.A. 79-3603 by eliminating the sunset provision for the sales tax rate. The sales tax rate would remain at 6.3% on and after July 1, 2013.

Section 4 amends K.S.A. 79-3620 to change the sales tax transfer amount to the state highway fund to 16.67%.

Section 5 amends K.S.A. 79-3707 by eliminating the sunset provision for the use tax rate. The sales tax rate would remain at 6.3% on and after July 1, 2013.

Section 6 amends K.S.A. 79-3710 to change the use tax transfer amount to the state highway fund to 16.67%.

New Section 7 provides for the automatic reduction of income tax rates when actual state general fund receipts from taxes exceeds the actual state general fund receipts from taxes for the immediately preceding fiscal year by more than 4%, beginning in fiscal year 2015. Top marginal rates for individual tax will be reduced to rates estimated by the Secretary of Revenue. Reduced rates will be published by October 15 of the year prior to their effect. Lower tax receipts will not trigger an automatic rate increase.

The effective date of this bill is on publication in the statute book.

### **Fiscal Impact**

Passage of this bill will increase state general fund revenues by \$442.2 million in fiscal year 2014 and by \$356.1 million in fiscal year 2015.

Maintaining the Sales and Use tax rate at 6.3% and eliminating the mortgage interest and real estate property tax deductions for Kansas income tax purposes, increases tax receipts by \$480.0 million in FY 2014 and \$484.0 million in FY 2015. The reduction in individual income tax rates will reduce income tax receipts by \$37.9 million in FY 2014 and \$128.1 million in FY 2015. The net impact is a \$442.2 million increase in revenues in FY 2014 and \$356.1 million in FY 2015.

Estimated Fiscal Impact of SB 78	Fiscal Year	
	2014	2015
	dollars are in millions	
Section 1 - Bottom Rate to 2.5% in TY 2014	\$ (37.9)	\$ (128.1)
Section 2 - Mortgage Deduction Elimination - TY 2013	\$ 162.5	\$ 131.7
Section 2 - Real Estate Tax Deduction - TY 2013	\$ 68.5	\$ 55.5
Sections 3 & 5 - Sales Tax Rate at 6.3% - FY 2014	\$ 249.0	\$ 297.0
<b>Net Impact</b>	<b>\$ 442.2</b>	<b>\$ 356.1</b>

Section 1 of the bill reduces the bottom rate to 2.5% in tax year 2014 and 2015, to 1.9% in tax year 2016, and reduces the top rate to 3.5% beginning in tax year 2017.

Section 2 of the bill disallows real property taxes and mortgage interest included in federal itemized deductions from being included in Kansas itemized deductions.

Sections 3 and 5 remove the sales and use tax sunset provision which allows the sales and use tax rate to remain at 6.3%.

Sections 4 and 6 changes the state highway fund transfer percentage so the highway fund will receive .4% and the SGF will receive .6%.

### **Administrative Impact**

The estimated costs to implement this bill are about \$141,400 in fiscal year 2014.

IS costs are estimated to be about \$81,000, or 2,700 hours, of programming salary to develop and implement the changes required by this bill.

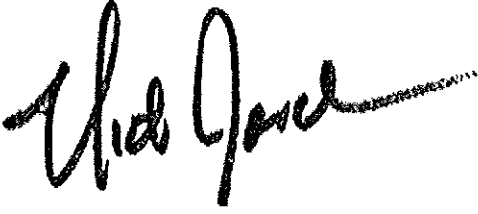
Tax Operations savings are estimated to be about \$60,400 in fiscal year 2014. Those costs include one time administrative and testing costs of about \$44,100 for 1,520 hours of testing time. Costs for changes to forms and postage costs are estimated to be about \$16,300.

### **Administrative Problems and Comments**

### **Taxpayer/Customer Impact**

### **Legal Impact**

Approved By:

A handwritten signature in black ink, appearing to read "Nick Jordan". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Nick Jordan  
Secretary of Revenue