

SESSION OF 2014

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2557

As Amended by Senate Committee of the Whole

Brief*

HB 2557, as amended by the Senate Committee of the Whole, would make a number of changes in income and sales tax provisions.

Income Tax Provisions

One part of the bill would exempt from a 50 percent underpayment of liability penalty provided under current law certain income taxpayers who timely pay (generally within 30 days) any tax assessed pursuant to adjustments made by the Director of Taxation. In order to qualify for this exemption, taxpayers must have previously paid in full the amount of tax due as stated on the original returns.

The bill also would eliminate, retroactive to tax year 2013, a requirement that certain losses reported on schedules C, E, and F of federal income tax form 1040 be added back to federal adjusted gross income prior to the determination of Kansas adjusted gross income for state income tax purposes. The add-back requirement would no longer be applicable to the first \$25,000 of losses for single filers and the first \$50,000 of losses for married taxpayers filing jointly.

*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>

Sales Tax Provisions

An additional provision would exempt from sales tax certain purchases of not-for-profit hospices relating to programs of all-inclusive care for the elderly.

Another section would clarify the sales tax exemption for direct purchases by political subdivisions (and for materials purchased by contractors on behalf of such entities) such that the exemption would not be applicable to public housing authority projects other than certain qualifying low-income projects and would not be applicable to housing projects intended for resale.

Another sales tax exemption would be provided for purchases by or on behalf of the Epilepsy Foundation of Missouri and Kansas, a not-for-profit group, for the purpose of leading the fight to stop seizures, finding a cure and overcoming the challenges created by epilepsy.

An additional sales tax exemption would apply to certain sales of property or services purchased by a contractor for constructing, maintaining, repairing, enlarging, furnishing or remodeling facilities of the Wichita Children's Home, provided the purchases would have otherwise been exempt if purchased directly by that entity. The Wichita Children's Home would be required to provide a contractor with a project exemption certificate.

Another exemption would apply to sales of property and services purchased by or on behalf of Reaching Out from Within, Inc., a not-for-profit group, for the purpose of sponsoring certain self-help programs for incarcerated persons.

A final exemption would apply to sales of property and services purchased by or on behalf of the Beacon, Inc., a not-for-profit group, for the purpose of helping persons during times of special need acquire food, shelter, clothing and other necessities of life.

Background

The original bill dealt with the penalty provision relative to certain income taxpayers. The House Committee of the Whole on February 18 amended the bill to incorporate a section that would have provided sales tax refunds for certain textbook purchases. The Senate Assessment and Taxation Committee on March 18 removed the textbook refund provision and, on March 19, inserted an elimination for certain loss add-backs before recommending the bill be advanced, as amended. The Senate Committee of the Whole on April 4 amended this latter provision such that only the first \$25,000 of losses for single filers and the first \$50,000 for married filers would be exempt from the add-back requirement; added the sales tax exemption for certain not-for-profit hospices; included the provision clarifying the sales tax exemption for certain housing authorities; and added the exemption amendments for the Wichita Children's Home; the Missouri and Kansas Epilepsy Foundation; Reaching Out from Within; and Beacon, Inc.

Proponents of the original bill, including representatives of the Kansas Society of CPAs and the Kansas Chapter of the National Association of Tax Professionals, said the bill would help relieve burdensome penalties sometimes levied on taxpayers who have filed incorrect returns.

A fiscal note provided by the Department of Revenue on the original bill indicated the bill would be expected to reduce State General Fund (SGF) receipts by \$0.5 million annually and would necessitate an additional \$156,700 in additional administrative costs for the Department of Revenue in FY 2015.

In an email on April 4, the Department of Revenue estimated that the latest version of the add-back provision (Senate Committee of the Whole amendment) would be expected to reduce FY 2015 SGF receipts by an amount slightly less than \$89.5 million and would be expected to

reduce receipts in FY 2016 by an amount slightly less than \$42.5 million.

In an email on April 4, the Department of Revenue estimated that the hospice sales tax exemption would be expected to reduce FY 2015 receipts by \$0.4 million. Of this amount, \$0.332 million would represent a reduction in SGF receipts, while \$0.068 million would represent a reduction in State Highway Fund (SHF) receipts.

In an email on April 4, the Department of Revenue indicated that the clarifying amendment with respect to the public housing authority sales tax exemption would be expected to increase receipts by an indeterminate amount.

In an email on April 4, the Department of Revenue indicated that the sales tax exemption amendments for the Wichita Children's Home; the Missouri and Kansas Epilepsy Foundation; Reaching Out from Within; and Beacon, Inc. would combine to reduce FY 2015 sales tax receipts by about \$0.352 million (\$0.292 million for the SGF and \$0.060 million for the SHF).