SESSION OF 2013

SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR SENATE BILL NO. 84

As Recommended by House Committee on Taxation

Brief*

House Sub. for SB 84 would adjust the statutory disposition of revenue for sales and use taxes and would make several adjustments to individual income tax provisions.

Sales and Use Tax Provisions

Several sections of the bill would decelerate a currently scheduled increase in the share of sales and use tax receipts earmarked for the State Highway Fund (SHF) for two years, effectively retaining additional money for the State General Fund (SGF) for FY 2014 and FY 2015. Current law provides for the amount of sales and use tax receipts earmarked for deposit in the SHF to increase from 11.233 percent in FY 2013 to 18.421 percent in FY 2014. This bill would delay that increase until FY 2016.

Income Tax Rate Reduction Formula

Another major part of the bill would provide for formulaic individual income tax rate reductions beginning as early as tax year 2015 based on the extent to which a certain specified group of SGF tax sources have increased over the previous fiscal year.

The Director of Legislative Research would be required to certify at the conclusion of each fiscal year, beginning with

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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

FY 2014, the amount by which a specific set of SGF tax receipts – generally most major income, privilege, and excise taxes – has grown over the prior year. The Secretary of Revenue would then be required to compute that percentage growth above 2 percent and reduce the upper individual income tax bracket for the upcoming tax year (beginning with tax year 2015) by that percentage, plus 0.5 percent; and reduce the bottom bracket by that percentage plus 0.5 percent. Language in the bill further would provide that when the bottom bracket is computed to fall below a rate of 0.4 percent, it would be repealed altogether. This provision, subsequently, would apply to the remaining bracket. After the individual income tax would be completely repealed, the formulaic rate rollback provisions would be applied to the corporation income tax surtax. When the corporation surtax is repealed, adjustments would begin to the corporation base rate and to financial institution privilege tax rates.

For a fiscal year when the selected set of tax sources has not grown by 2 percent or more, no rate reductions would be triggered for the upcoming tax year.

The Secretary of Revenue would be required to report all income tax rate reductions triggered under the formula to the Governor, the Chairperson of the Senate Assessment and Taxation Committee, and the Chairperson of the House Taxation Committee, and to publish such reductions in the *Kansas Register* prior to September 15.

Reduction of Kansas Itemized Deductions

An additional section of the bill would provide that Kansas itemized deductions effective in tax year 2013 would be reduced relative to the amount that could otherwise be claimed by 24 percent. To the extent that the formulaic income tax rate reduction provisions would occur, the 24 percent amount would be increased in future tax years based on the extent to which the new top individual income tax bracket would continue to fall below the former (tax year 2012) top bracket of 6.45 percent.

Background

The original bill, which dealt with "click-thru" nexus provisions relating to sales and use tax, was requested for introduction and supported by the Kansas Chamber. The Senate Assessment and Taxation Committee amendment was technical.

The House Taxation Committee, on March 12, voted to strike the bill's original provisions in their entirety; inserted all the other provisions herein described; and recommended a substitute bill be created.

An analysis of the provisions by the Kansas Department of Revenue and Kansas Legislative Research Department indicated, based on multi-year revenue estimates provided by the Kansas Division of the Budget combined with the various policy changes of the bill, the formulaic individual income tax rate relief would be triggered initially in tax year 2016, when the current bottom individual income tax bracket of 3.0 percent would be reduced to 2.96 percent; and the current top bracket of 4.9 percent would be reduced to 4.88 percent. Additional rate relief would be triggered again in tax year 2018, when the bottom bracket would become 2.91 percent; and the top bracket would become 4.84 percent. The analysis further indicated the 24 percent reduction in Kansas itemized deductions that would be effective in tax year 2013 would increase to 24.34 percent in tax year 2016; and again to 24.96 percent in tax year 2018 (based on the changes to the upper individual income tax rate).

The following table provides the disaggregated SGF fiscal impact based on the aforementioned analysis:

($ in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	5-yr total
More Sales/Use to SGF	$ 179.1	$ 202.7	$ 0.0	$ 0.0	$ 0.0	$ 381.8
Haircut Itemized Deduction	108.3	87.8	92.6	98.1	103.8	490.6
Formulaic Rate Cuts	0.0	0.0	(6.1)	(20.6)	(32.3)	(59.0)
TOTAL	**$ 287.4**	**$ 290.5**	**$ 86.5**	**$ 77.50**	**$ 71.5**	**$ 813.4**