

SESSION OF 2015

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2430**

As Amended by House Committee on Taxation

**Brief\***

HB 2430, as amended, would establish tax rates for certain businesses and would revise the additions and subtractions made to federal adjusted gross income to determine Kansas taxable income.

Starting in tax year 2015, an income tax on qualified income from limited liability companies, S corporations, partnerships, associations, sole proprietorships, joint ventures, or similar business organizations—but excluding certain other corporations and financial institutions—would be equal to the lowest rate for resident individuals, which under current law is equal to 2.7 percent of Kansas taxable income in 2015, 2.4 percent in 2016, and 2.3 percent in 2017 and subsequent tax years. Qualified income would be offset by a claimed qualified loss. Non-qualified business income would be taxed at a higher rate as specified by current law. Under current law, certain business income is not taxed.

Also starting in tax year 2015, when individuals calculate their Kansas taxable income, the following adjustments would no longer be added to their federal adjusted gross income:

- Federal net operative loss deductions as reported from federal schedules C, E, and F;
- Self-employment taxes;
- Deductions for pension, profit sharing, and annuity plans of self-employed individuals;

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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>

- Deductions for health insurance; and
- Deductions for domestic production activities.

Also when calculating Kansas taxable income, individuals would no longer subtract the following adjustments from their federal adjusted gross income:

- Certain income reported on schedule E reported by financial institutions;
- Net profit from schedules C, E, and F; and
- The net gain from the sale of cattle and other livestock held by the taxpayer for a long-term period as specified by current law.

The Director of Taxation would not be permitted to assess penalties or interest arising from the underpayment of taxes owed under the bill for tax year 2015.

## **Background**

HB 2430 was introduced by the House Committee on Taxation. There was no proponent or neutral testimony. Representatives from the Kansas Society of CPAs, the Kansas Chamber, the Kansas Association of Realtors, the National Federation of Independent Businesses, and the Kansas Policy Institute spoke in opposition to the bill.

The House Committee amended the bill to delete the requirement for a business entity to certify to the Department of Revenue information pertaining to the employment of one or more persons on a full-time basis in order to qualify for the lower tax rate. The Committee also amended the bill to prohibit the assessment of interest and penalties for tax year 2015.

Fiscal analysis estimates the bill, as amended, would increase revenues to the State General Fund by \$133.6 million in FY 2016, \$96.9 million in FY 2017, and \$95.0 million in FY 2018.