



Since 1894

To: House Committee on Taxation
Representative Steven Johnson, Chair

From: Tucker Stewart, Associate Counsel, Kansas Livestock Association

Re: **HB 2023 concerning income taxation; relating to the determination of Kansas adjusted gross income, modifications**

Date: January 19, 2017

The Kansas Livestock Association (KLA), formed in 1894, is a trade association representing nearly 5,200 members on legislative and regulatory issues. KLA members are involved in many aspects of the livestock industry, including seed stock, cow-calf and stocker production, cattle feeding, dairy production, grazing land management and diversified farming operations.

The Kansas Livestock Association (KLA) is neutral on House Bill 2023 which rolls back the income tax exemption for non-C-corporation businesses. While KLA does not have policy regarding the income tax exemption itself, if the committee is going to pass a repeal of the exemption, it should keep a key provision contained in HB 2032.

As you may know, farm income has substantially declined the last couple years and is expected to stay low in the near future. KLA policy states, "[w]ith regard to income taxes . . . [t]he Kansas Livestock Association supports the adoption of statutory changes that allow carry back losses . . . or other means to reduce the volatility of agricultural income." As such, KLA believes it necessary for any repeal of the the income tax exemption to also allow use of the Federal net operating loss deduction (NOL). While it would be unnecessary to carryback a NOL because there was no state tax on income, farmers may have an unused federal NOL from previous years which could carryforward to offset income in 2017 or later.

The current bill seems to allow a NOL deduction beginning again in 2017. The bill appears to be written in a manner to allow an unused federal NOL from any year in the carryforward period so long as the deduction is used after December 31, 2016. The federal NOL is used to offset all income, including income from wages. Obviously the use of an NOL deduction is very important to farmers and ranchers including those who have income other than farm income.

While KLA remains neutral on the underlying bill, should the bill pass, KLA suggests keeping the modification that allows a NOL deduction and perhaps clarifying that unused federal NOL from the exemption period could be used to offset future income.