

## MEMORANDUM

To: Mr. Shawn Sullivan, Director  
Director of Budget  
From: Kansas Department of Revenue  
Date: 1/23/2017  
Subject: 2017 House Bill 2023  
Introduced as a House Bill

### Brief Of Bill

Section 1 defines addition and subtraction modifications to federal adjusted gross income including the following changes beginning January 1, 2017.

The following addition modifications are sunsetted:

- The federal net operating loss (NOL) deduction allowing net operating losses (NOLs) to be claimed again;
- Business losses as reported on the IRS form Schedule C;
- Rents, royalties, partnerships, etc... losses as reported on IRS form Schedule E;
- Farm losses as reported on IRS form Schedule F;
- Self employment taxes;
- Self employed pensions, profit sharing, and annuity plans;
- Self employed health insurance; and
- Domestic production.

The following subtraction modifications are sunsetted:

- Business income as reported on the IRS form Schedule C making this income taxable;
- Rents, royalties, partnerships, etc... income as reported on IRS form Schedule E making this income taxable;
- Farm income as reported on IRS form Schedule F making this income taxable; and
- Qualified sales of cattle, horses, and other livestock making this income taxable.

Adding new subsection (f) to K.S.A. 2016 Supp 79-32,117

(f) Any taxpayer who is in compliance with the provisions of this section, as they appear on June 30, 2017, shall not be assessed penalties and interest arising from the underpayment of taxes due to changes to this section which became law on July 1, 2017, so long as such underpayment occurred prior to July 1, 2017, and is rectified on or before April 15, 2018.

Section 2 repeals KSA 2016 Supp. 79-32,117.

Section 3 states the act shall take effect after publication in the statute book.

### Fiscal Impact

This bill is expected to raise the following SGF revenue amounts:

FY 18 = \$230.9 million, FY 19 = \$181.0 million, FY 20 = \$184.1 million, FY 21 = \$187.3 million, and FY 22 = \$190.5 million

The following assumptions were made:

- Tax rate of 4.6%;
- 30% increase in FY 18 due to the bill being retroactive;
- Revenues were grown by 1.0% in the out years;
- Losses were allowed;
- Removal of the livestock subtraction modification making this income taxable again was estimated at \$3.7 million annually based off historical averages (TY 2014 and TY 2015); and
- Net Business Income is: Business Income + LLC, Partnership, Royalties + Farm Income

Less: Business Loss + LLC, Partnership, Royalties Losses + Farm Loss  
Self Employment + Self Employment Health Insurance +  
Self Employed Annuity Plans + Domestic Production +  
Guaranteed Payments

Administrative Impact

Total Admin and IT costs: \$373,554

Administrative costs are \$246,233.46 including testing costs of \$46,440.00 for a total of \$292,673.46.

IS costs total \$80,880 for 2696 hours of work.

Administrative Problems and Comments

New subsection (f) appears to only impact underestimate penalty not traditional penalty and interest.

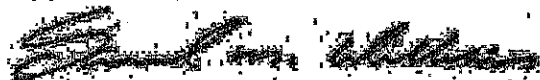
Whether new subsection (f) applies to underestimate penalty or late pay penalty and interest, this will have a significant impact on the department as a whole from front end return processing all the way to back end collection processes.

Taxpayer/Customer Impact

Legal Impact

None.

Approved By:



Samuel M. Williams  
Secretary of Revenue