SUPPLEMENTAL NOTE ON SENATE BILL NO. 147

As Amended by Senate Committee on Assessment and Taxation

Brief*

SB 147, as amended, would make a number of changes in the state individual income tax structure.

The bill would repeal, effective for tax year 2017, the exemption for non-wage business income that has been in effect since tax year 2013. Taxpayers could also begin claiming certain non-wage business income losses, provided such losses had occurred on or after January 1, 2017. The state income tax treatment of losses occurring on or after that date would conform with federal treatment.

Individual income tax rates would be increased beginning in tax year 2018 such that the bottom bracket would be 3.0 percent and the top bracket would be 4.9 percent. (Current law provides for the brackets to be 2.6 and 4.6 percent beginning in tax year 2018.) No adjustment would be made to formulaic rate reduction provisions that could provide for subsequent downward adjustments based on growth in certain State General Fund receipts.

An additional low-income exclusion for certain taxpayers (married filing jointly with taxable income of $12,500 or less and all other individuals with taxable income of $5,000 or less) would also be repealed beginning in tax year 2018.

Subtraction modifications that had previously existed allowing taxpayers to exclude certain sales of livestock and Christmas trees from income tax net gains would be repealed beginning in tax year 2017.

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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

Finally, taxpayers in compliance with current law as of June 30, 2017, would be exempt from penalties and interest from underpayment of taxes due to changes in law occurring on July 1, 2017, provided such underpayments have been rectified on or before April 15, 2018.

Background

Individual income tax legislation enacted originally in 2012 provided for the non-wage business income exemption. A three-bracket system (3.50 percent, 6.25 percent, and 6.45 percent) that had remained largely unchanged since the early 1990s was also amended at that time to become a two-bracket system (with rates set at 3.0 and 4.9 percent for tax year 2013 and all years thereafter). Additional changes in that 2012 legislation included the repeal of various tax credits, removal of renters from the Homestead Property Tax Refund program, and increases in standard deductions.

Follow-up legislation enacted in 2013 made a number of reductions to itemized and standard deductions, provided for additional income tax rate reductions to be phased in through tax year 2018, and established formulaic relief that could occur in future years.

A third major round of changes to the State's tax structure enacted in 2015 included removing some of the income tax rate reductions scheduled to occur through tax year 2018, adjusting the formulaic provisions, further reductions to itemized deductions, increasing the sales tax rate, and increasing the cigarette tax rate.

At the Senate Committee on Assessment and Taxation hearing on February 6, proponents to the bill included representatives of the Kansas Association of School Boards and the Kansas Economic Progess Council; while opponents included representatives of the Kansas Chamber, the Kansas Policy Institute and Americans for Prosperity.

The Senate Committee amended the bill to remove special subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales.

According to the fiscal note prepared by the Department the Budget on the bill as introduced, the Department of Revenue estimated the bill would be expected to increase FY 2018 State General Fund receipts by $288.1 million, FY 2019 receipts by $372.2 million, FY 2020 receipts by $377.3 million, FY 2021 receipts by $382.4 million, and FY 2022 receipts by $387.5 million.

The Department of Revenue also indicated enactment of the bill would necessitate an additional $292,673 in administrative costs for FY 2018.

A fiscal note on the Senate Committee amendments, which would be slightly positive, was not immediately available.