

SESSION OF 2017

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2315

As Amended Without Recommendation by
House Committee on Taxation

Brief*

HB 2315, as amended, would implement a number of income, franchise, liquor, cigarette, and tobacco products tax increases recommended by the Governor as part of his budget proposal for FY 2018 and FY 2019 made to the 2017 Legislature in January.

Income Tax Provisions

An income tax exemption effective since tax year 2013 for certain passive income received from rents and royalties would be repealed beginning with tax year 2017.

An income tax rate reduction scheduled under current law for tax year 2018 (when the bottom individual income tax bracket is scheduled to be reduced from 2.7 percent to 2.6 percent) would be repealed.

The community services contribution income tax credit would be repealed beginning with tax year 2018.

Franchise Tax/Fee Provisions

The annual franchise tax for all for-profit entities would be increased from \$40 to \$200 beginning in FY 2018. All shareholders and partners owning at least 5.0 percent of

*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>

business entities would be required to pay a \$200 annual filing fee.

Liquor Enforcement Tax Provisions

The rate of the liquor enforcement tax would be increased from 8.0 percent to 16.0 percent on July 1, 2017.

Cigarette Tax Provisions

The cigarette tax rate would be increased from \$1.29 to \$2.29 per pack on July 1, 2017. An inventory tax of \$1.00 per pack would be imposed on cigarettes on hand as of July 1 and would be payable as of October 31, 2017.

Tobacco Products Tax Provisions

The tobacco products tax rate would be increased from 10.0 percent to 20.0 percent of wholesale on July 1, 2017. An inventory tax equivalent to 10.0 percent of wholesale relative to tobacco products on hand as of July 1 would be payable as of July 31, 2017.

Background

In the House Committee on Taxation hearing on February 16, proponents included the March of Dimes, the American Cancer Society, the American Heart Association, and the Department of Revenue. Opponents included representatives of the Office of the Secretary of State, the Petroleum Marketers and Convenience Store Association, and the Kansas Beer Wholesalers Association.

On February 23, the House Committee amended the bill to clarify the effective date for taxation of rents and royalties. The fiscal note prepared by the Division of the Budget on the

bill, as introduced, notes this provision should be made retroactive to coincide with the Governor's proposal.

The House Committee also recommended the bill be advanced without recommendation.

The latest information available from the Department of Revenue indicates the bill would be expected to increase State General Fund receipts as follows:

(In Millions)

	<u>FY 2018</u>	<u>FY 2019</u>
Franchise Tax/Fees	\$ 33.60	\$ 33.60
Cigarette Tax Rate	42.14	46.40
Cigarette Inventory	10.66	0.00
Tobacco Products Rate	6.23	7.80
Tobacco Products Inventory	0.77	0.00
Income Tax Rate Freeze	4.80	16.10
Income Tax (Passive)	40.00	40.00
Income Tax Credit	1.00	3.30
Liquor Enforcement Tax	52.30	54.70
Total	\$ 191.50	\$ 201.90