

SESSION OF 2017

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 175**

As Amended without Recommendation by  
Senate Committee on Assessment and Taxation

**Brief\***

SB 175, 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tax exemption effective since tax year 2013 for certain passive income received from rents and royalties would be repealed beginning with tax year 2017.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(when the bottom individual income tax bracket is scheduled to be reduced from 2.7 percent to 2.6 percent) would be repealed.

The community services contribution income tax credit also would be repealed beginning with tax year 2018.

***Franchise Tax/Business Entity Fee Provisions***

The annual report fee for all for-profit business entities would be increased from \$40 to \$200 beginning in FY 2018. All shareholders and partners owning at least 5.0 percent of business entities further would be required to pay the \$200

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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>

annual report fee. Current law requires the fee be paid once each year for the business entity.

### ***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**

During the Senate Committee on Assessment and Taxation hearing on February 13, proponents included the Secretary of Revenue and representatives of the University of Kansas Cancer Center, the American Cancer Society, and the American Heart Association. Opponents included representatives of the Petroleum Marketers and Convenience Store Association, the Kansas Beer Wholesalers Association, and the Cigar Association of America.

The Senate Committee amended the bill on February 14 to clarify the repeal of the tax exemption for certain passive income would be effective beginning in tax year 2017.

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

(In Millions)

	<u>FY 2018</u>	<u>FY 2019</u>
Business Entity Report Fee	\$ 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
<b>Total</b>	<b>\$ 191.50</b>	<b>\$ 201.90</b>