

SESSION OF 2017

**SUPPLEMENTAL NOTE ON SENATE BILL NO. 214**

As Amended by Senate Committee of the Whole

**Brief\***

SB 214 as amended, would make a number of changes in the Kansas individual income tax structure and reduce the sales tax rate on food.

***Individual Income Tax Changes—Tax Year 2017***

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 in conformity with federal treatment (but would not be able to file amended returns for previous tax years when such losses were not eligible to be claimed for Kansas income tax purposes). Special subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales would be repealed.

***Individual Income Tax Changes—Tax Year 2018 and Thereafter***

Individual income tax rates would be collapsed into a single bracket of 4.60 percent beginning in tax year 2018. (Current law provides for a two-bracket system with rates of 2.60 and 4.60 percent for that tax year.) Additional formulaic provisions that could have provided for rate reductions in certain future years based on growth in selected State General Fund (SGF) tax receipts would be repealed.

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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>

Medical expenses allowed as itemized deductions under federal law would also become available as Kansas itemized deductions beginning in tax year 2018. (Legislation enacted in 2015 had repealed the medical expense deduction altogether for state income tax purposes.)

The itemized deduction available for property taxes paid would be increased from the currently authorized 50 percent of the federal amount to 100 percent of such amount.

Also effective in tax year 2018, standard deductions would be increased to match current federal amounts (from \$3,000 to \$6,300 for single taxpayers; from \$7,500 to \$12,600 for married taxpayers filing jointly; and from \$5,500 to \$9,300 for heads of household). Kansas standard tax deductions would continue to mirror the federal amounts (which are indexed for inflation) prospectively beginning in tax year 2019.

The bill further would repeal a low-income exclusion provision that ensures married taxpayers filing jointly with taxable income of \$12,500 or less and single filers with taxable income of \$5,000 or less have no state income tax liability.

Finally, certain member contributions made on a pre-tax basis to Kansas Board of Regents' retirement plans established pursuant to KSA 74-4925 would become subject to income tax beginning in tax year 2018.

### ***Food Sales Tax Reduction***

The bill would reduce the sales tax rate on certain food and food ingredients, effective July 1, 2018, from 6.5 percent to 5.5 percent.

The food sales tax reduction generally would not apply to most prepared foods, but it would apply to candy, dietary supplements, soft drinks, food sold through vending machines, and most purchases of bottled water.

## Background

Individual income tax legislation originally enacted in 2012 provided for the non-wage business income exemption. A three-bracket system (3.50 percent, 6.25 percent, and 6.45 percent), largely unchanged since the early 1990s, was also amended at that time to become a two-bracket system (with rates set at 3.0 percent 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 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, reducing itemized deductions further, increasing the sales tax rate, and increasing the cigarette tax rate.

The following table provides additional details regarding the income tax brackets under prior law, current law, and the proposal in the bill.

<b>Taxable Income</b>	<b>Tax Years 1992-2012</b>	<b>Current Law Tax Year 2018</b>	<b>SB 214 Tax Year 2018</b>
\$0-\$30,000	3.50%	2.60%	4.60%
\$30,001-\$60,000	6.25	4.60	4.60
\$60,001 and above	6.45	4.60	4.60

In the Senate Committee on Assessment and Taxation hearing on March 21, no conferees appeared to testify on the original bill, which would have restored the medical expense itemized deduction for tax year 2017, but the Kansas Center on Economic Growth did submit neutral written-only testimony.

On April 4, the Senate Committee amended the bill to decelerate the effective date for the medical expense provision to tax year 2018 and to insert all the other aforementioned provisions.

On April 6, the Senate Committee of the Whole amended the bill to eliminate certain formulaic provisions that could have provided for additional food sales tax rate reduction beginning in 2020.

The table below summarizes the latest fiscal information provided by the Department of Revenue. Any fiscal effect associated with the bill is not reflected in *The FY 2018 Governor's Budget Report*.

(\$ in millions)

	<b>Income Tax Provisio ns</b>	<b>Sales Tax on Food at 5.5% on 7/1/18</b>	<b>Total Impact All Funds</b>	<b>Sales Tax SGF</b>	<b>Sales Tax State Highwa y Fund</b>	<b>Total Impact SGF</b>
FY 2018	\$ 295.400	\$ .000	\$ 295.400	\$ .000	\$ .000	\$ 295.400
FY 2019	404.800	(57.397)	347.403	(48.125)	(9.272)	356.675
FY 2020	387.600	(63.711)	323.889	(53.419)	(10.292)	334.181
FY 2021	392.800	(64.825)	327.975	(54.354)	(10.472)	338.446
FY 2022	398.000	(65.960)	332.040	(55.305)	(10.655)	342.695
<b>5-yr total</b>	<b>1,878.600</b>	<b>\$(251.893)</b>	<b>1,626.707</b>	<b>(211.202)</b>	<b>(40.691)</b>	<b>1,667.398</b>