*SESSION OF 2017*

# SUPPLEMENTAL NOTE ON SUBSTITUTE FOR SENATE BILL NO. 97

As Amended by Senate Committee on Assessment and Taxation

## Brief*

Sub. for SB 97, as amended, would repeal, effective for tax year 2018, the exemption for non-wage business income that has been in effect since tax year 2013. Taxpayers in tax year 2018 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subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales would be repealed.

The bill would also repeal a rate reduction currently scheduled to occur in tax year 2018 (where the current two-bracket system would be set at 2.6 percent and 4.6 percent), maintaining instead the current rates from tax year 2017 of 2.7 percent and 4.6 percent. No change would be made to special formulaic provisions designed to provide for future downward rate adjustments based on growth in certain State General Fund (SGF) receipts.

## 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Individual income tax legislation originally enacted in 2012 provided for the non-wage business income exemption.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), which had remained largely unchanged since

*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 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.

SB 97, as introduced, dealt with a sales tax exemption for certain automobile manufacturer rebates.

On February 6, the Senate Committee on Assessment and Taxation removed the bill's original provisions, recommended a substitute bill be created, and inserted a number of income and sales tax provisions. That version of the bill was withdrawn from the Senate Calendar and returned to the Senate Committee on February 23.

On May 8, the Senate Committee voted to remove many of the substitute bill's provisions and amend the legislation with the tax year 2018 implementation of the several income tax provisions previously described.

The latest fiscal information provided by the Department of Revenue indicated the amended version of the substitute bill would be expected to increase SGF receipts by $59.0 million in FY 2018 and by $197.0 million in FY 2019.