

SESSION OF 2012

**SUPPLEMENTAL NOTE ON SENATE SUBSTITUTE FOR
HOUSE BILL NO. 2117**

Recommended by Senate Committee on
Assessment and Taxation

Brief*

Senate Sub. for HB 2117 would implement a number of major changes in income taxes effective for tax year 2013; repeal a severance tax exemption; restrict participation in the Homestead Property Tax Refund program; and maintain the current 6.3 percent sales tax rate beginning in FY 2014 (when the rate is currently scheduled to fall to 5.7 percent).

Income Tax Provisions

Rate Reduction and Restructuring

One major part of the bill would take the current three-bracket structure for individual income taxes (3.5, 6.25, and 6.45 percent) and collapse it into a two-bracket system using rates of 3.0 and 4.9 percent.

Business Income Exemption

The bill would totally exempt certain non-wage business income that under current law is subject to individual income tax (income reported by LLC's, Subchapter-S Corporations, and sole proprietorships on lines 12, 17, and 18 of federal form 1040). Taxpayers availing themselves of this exemption would be excluded from receiving another credit designed to the eliminate liability of certain resident individuals pursuant

*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>

to KSA 2012 Supp 79-32,266.

Itemized Deductions

The bill further would repeal most itemized deductions available under current law, including deductions for mortgage interest, charitable contributions, property taxes paid, and state and local sales taxes paid.

Tax Credits

Additional sections would repeal tax credits currently allowed to individuals (but not to corporations) for food sales tax rebates; abandoned well plugging; adoption expenses; agritourism; alternative fuel equipment expenditures; assistive technology; child and dependent care expenses; child day care expenses; disabled access expenditures; environmental compliance expenditures; individual development account contributions; law enforcement training center contributions; small employer health benefit plan contributions; swine facility improvement expenditures; port authority contributions; small employer health benefit plan contributions; swine facility improvement expenditures; telecommunications property tax payments; venture capital contributions; and certain temporary assistance to family contributors.

Other Income Tax Provisions

Additional provisions of the bill would eliminate a subtraction modification for certain long-term care insurance expenditures; and eliminate the ability of individuals to utilize the income tax deduction for expensing enacted in 2011.

Severance Tax Provisions

The two-year new pool severance tax exemption would be repealed relative to all oil production from any pool

producing in excess of 50 barrels per day, provided the initial production occurs on and after July 1, 2012.

Sales Tax Provisions

The sales and use tax rate, which is currently scheduled to be reduced from 6.3 to 5.7 percent on July 1, 2013, would remain at 6.3 percent, and various disposition of revenue sections of the law would be adjusted to provide that all the additional money go to the State General Fund (SGF) and none to the State Highway Fund (SHF).

Homestead Program

Beginning in tax year 2013, renters would no longer be eligible to participate in the Homestead Property Tax Refund program.

Background

The subject matter of the House Committee of the Whole version of the bill (repeal of defunct language in sales tax statutes and allowing certain employers to retain employee withholding taxes), approved in 2011, was addressed in other legislation adopted during the 2011 session. The Senate Assessment and Taxation Committee on March 14 voted to remove all of these provisions; recommend that a substitute bill be created; and insert the aforementioned tax reform provisions--many of which were contained originally in SB 339, a proposal recommended by the Governor at the outset of the 2012 Session.

Among features of the Governor's plan which the Senate Committee removed were the proposed repeal of the earned income tax credit; proposed repeal of additional credits relating to historic preservation, angel investor contributions, and community service; proposed elimination of the subtraction modification associated with Learning Quest

program contributions; and a mechanism that would have provided for formulaic tax reductions in future years based on growth in selected SGF receipts.

The latest fiscal information available from the Department of Revenue indicates that the Senate Committee version of the bill would be expected to have the following impact on SGF receipts:

	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>5-yr Total</u>
Income	\$ (120.6)	\$ (417.3)	\$ (431.6)	\$ (448.8)	\$ (468.8)	\$ (1,887.1)
Severance	\$ 16.1	\$ 18.8	\$ 32.8	\$ 45.6	\$ 56.8	\$ 170.1
Sales/Use	\$	\$ 251.0	\$ 287.1	\$ 297.1	\$ 306.0	\$ 1,141.2
Net Impact	\$ (104.5)	\$ (147.5)	\$ (111.7)	\$ (106.1)	\$ (106.0)	\$ (575.8)