Committee on Senate Assessment and Taxation
Senate Bill 175
Sam Williams, Acting Secretary
February 13, 2017

Kansas
Department of Revenue

Governor's Tax Proposal-2017

Tax passive income including rents/royalties
Passive income can only be generated by a passive activity. There are two sources of passive income: (1) income from a rental activity; or (2) a business in which the taxpayer does not materially participate.

Fiscal Impact:

FY 2018	$40.0M
FY 2019	$40.0M

Assumptions:
- Passive income from individuals filing a federal income tax return with a Kansas address equates to Part I and Part II of the 1040 Schedule E = $644.561 billion.
- $200.0 million in nonwage business income
- 20% of the nonwage business income is passive income
- No growth rate

Freeze bottom income tax rate at 2.7%
Currently the individual income tax rates are:

Married Filing Joint
For tax years 2015, 2016 and 2017:

If the taxable income is:	The tax is:
Not over $30,000	2.7% of Kansas taxable income
Over $30,000	$810 plus 4.6% of excess over $30,000

All Other Individuals
For tax years 2015, 2016 and 2017:

If the taxable income is:	The tax is:
Not over $15,000	2.7% of Kansas taxable income
Over $15,000	$405 plus 4.6% of excess over $15,000

Fiscal Impact:

FY 2018	$4.8M
FY 2019	$16.1M

Assumptions:
- Growth rate at historic rates and 2.0% in the out years

Eliminate Community Service Contribution Credit
This program provides a refundable tax credit for anyone that makes a cash contribution to an approved community service organization. The credit is 50% of the contribution made during the taxable year. If the approved community services organization is located in a rural community, the credit is 70% of the contributions made during the taxable year.

Fiscal Impact: Provided as part of the *Kansas Statewide Efficiency Review* by Alvarez & Marsal (A&M) that was produced during the 2016 Legislature.

FY 2018	$1.0M
FY 2019	$3.3M

Increase annual report filing fee from $40 to $200 for for-profit entities
This filing fee is administered by the Kansas Secretary of State's office.

Fiscal Impact:

FY 2018	$33.6M
FY 2019	$33.6M

Cigarette tax increase of $1.00/pack
Cigarettes sold, distributed or given away in Kansas are subject to a cigarette tax. This tax is paid by the wholesale cigarette dealer before the cigarettes are sold to retailers for resale to the final consumer. The cigarette tax is paid upon the purchase of tax stamps by the wholesale cigarette dealer which are then affixed to the cigarette packs. Currently the tax rate is $1.29 per pack of 20 cigarettes; and $1.61 per pack of 25 cigarettes.
Fiscal Impact:

FY 2018	$42.1M
FY 2019	$46.4M

Assumptions:

- For every 10% increase in the tax rate, there will be a 5% reduction in smoking
- For every 10% increase in the tax rate, there will be 7% in lost sales due to avoidance efforts (cross state/internet purchases, smuggling, etc)
- Lag factor: for every 5% increase in per pack costs, 10 day lag in receipts.
- Starting price per pack in state, with sales tax, is assumed at $5.50.
- Packs of cigarettes sold in state in FY 2016 = 107,364,000. Estimated packs for FY 17, with growth rate factored in -3.2% = 103,876,000. Estimated packs for FY 18, with growth rate factored in -1.5%= 102,326,000

Increase the tobacco products tax from 10% to 20%
Distributors of tobacco products (cigars, pipe and chewing tobacco, and snuff) are subject to the tobacco products tax of 10% on the wholesale price of their tobacco products.

Fiscal Impact:

FY 2018	$6.2M
FY 2019	$7.8M

Assumptions:

- For every 1% increase in the tax rate, there will be a 0.4% reduction in consumption
- Wholesale price is ½ of the retail price (tobacco tax is at the wholesale level)
- At the wholesale level, a 1% increase in the tax would reduce consumption by 0.2%
- Lag factor: for every 5% increase, assume a 1 week delay in new receipts
- FY 2016 Revenue=$8.040 million, Projected FY 2017 (Nov 2016 CRE, 4.5% projected growth rate)=$8.4 million

Increase the liquor enforcement tax from 8% to 16%
The liquor enforcement tax is imposed upon the gross receipts from the sale of liquor to consumers by retailers, microbreweries, and farm wineries. Also on the gross receipts from the sale of liquor and cereal malt beverage to clubs, drinking establishments, and caterers by distributors.

Fiscal Impact:

FY 2018	$52.3M
FY 2019	$54.7M

Assumptions:

- For every 1% increase in the tax rate, there will be a 1.5% decrease in consumption
- Lag factor: for every 5% increase, assume a 1 week delay in new receipts
- FY 16 Revenue=$67.63 million, Projected FY 2017 (Nov 2016 CRE, 4.8% projected growth rate)=$71.00 million