

SESSION OF 2017

**SECOND CONFERENCE COMMITTEE REPORT BRIEF
HOUSE BILL NO. 2067**

As Agreed to May 30, 2017

Brief*

HB 2067 would make a number of changes in the Kansas individual income tax structure and would make several adjustments to statutory provisions in relation to Sales Tax and Revenue (STAR) Bonds.

Individual Income Tax Provisions

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subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales would be repealed.

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 (Legislation enacted in 2015 repealed the medical expense deduction for state income tax purposes.) Itemized deductions for mortgage interest and property taxes paid would be set at 100 percent of the federal allowable levels beginning in tax year 2020.

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at <http://www.kslegislature.org/kldr>

(Current law allows only 50 percent of the federal amounts for these two deductions to be claimed for Kansas income tax purposes.)

Starting in tax year 2018, the low-income exclusion threshold (below which any positive income tax liability is otherwise eliminated) would be reduced from \$12,500 to \$5,000 for married filers and from \$5,000 to \$2,500 for single filers.

Individual income tax rates would be increased beginning in tax year 2017 such that the state would utilize a three-bracket system of 2.9 percent, 4.9 percent, and 5.2 percent. For tax year 2018 and all years thereafter, a three-bracket system of 3.1 percent, 5.25 percent, and 5.7 percent would be used. [Note: Current law provides for a two-bracket system with rates of 2.70 percent and 4.60 percent in tax year 2018. Find current law thresholds and other information on the table on page 4.]

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.

STAR Bond Provisions

The bill would extend the sunset date for the STAR Bond Financing Act from July 1, 2017, to July 1, 2020. For the first year of that extension, there would be a moratorium on the approval of new STAR Bond districts, but cities or counties with existing districts could continue to develop projects.

Conference Committee Action

The second Conference Committee agreed to delete the contents of HB 2067, pertaining to amendments to the

Uniform Insurance Agents Licensing Act to permit fingerprinting of certain applicants, and insert the contents described above.

Background

HB 2067 previously addressed application requirements in the Uniform Insurance Agents Licensing Act. The provisions previously contained in HB 2067 were subsequently adopted as part of the Conference Committee report for SB 14, which was signed into law on May 15.

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) that had remained 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.

Individual Income Tax Brackets, if Married Filing Jointly

Taxable Income	Tax Years 1992-2012	Current Law Tax Year 2017	Proposal Tax Year 2017	Current Law Tax Year 2018	Proposal Tax Year 2018
\$0-\$30,000	3.50%	2.70%	2.90%	2.60%	3.10%
\$30,001-\$60,000	6.25%	4.60%	4.90%	4.60%	5.25%
\$60,001 and above	6.45%	4.60%	5.20%	4.60%	5.70%

The latest fiscal information provided by the Department of Revenue indicates enactment of HB 2067 would be expected to increase SGF receipts by the following amounts:

- FY 2018, \$591.0 million;
- FY 2019, \$626.1 million;
- FY 2020, \$632.4 million;
- FY 2021, \$593.4 million; and
- FY 2022, \$599.3 million.

taxation; income tax; rates; brackets

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