SESSION OF 2017

SUPPLEMENTAL NOTE ON SUBSTITUTE FOR HOUSE BILL NO. 2178

As Recommended by House Committee on Taxation

Brief*

Sub. for HB 2178 would make a number of changes in the Kansas individual income tax structure.

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 also could 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 Special subtraction modification provisions relating to net gains from certain livestock sales would be repealed.

Medical expenses allowed as itemized deductions under federal law also would become available as Kansas itemized deductions beginning in tax year 2017. (Legislation enacted in 2015 had repealed the medical expense deduction altogether for state income tax purposes.)

Individual income tax rates would be increased beginning in tax year 2017 such that the state would be utilizing a three-bracket system of 2.70 percent, 5.25 percent, and 5.45 percent. (Current law provides for a two-bracket system with rates of 2.70 and 4.60 percent.) 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for rate reductions in certain future years based on growth in selected State General Fund (SGF) tax receipts would be repealed.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

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Individual income tax legislation originally enacted in 2012 provided for the non-wage business income exemption.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) that had remained largely unchanged since the early 1990s also was amended at that time to become a two-bracket system (with rates set at 3.0 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's 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, Married Filing Jointly

Taxable Income	Tax Year 1992-2012	Current Law Tax Year 2017	Sub. for HB 2178 Tax Year 2017
$0-$30,000	3.50%	2.70%	2.70%
$30,001-$60,000	6.25%	4.60%	5.25%
$60,001-$100,000	6.45%	4.60%	5.25%
$100,0001 +	6.45%	4.60%	5.45%

The original bill would have restored the medical expense deduction, repealed the formulaic rate reduction provisions, and increased the top bracket under the current two-tiered system to 5.25 percent. Testimony on the original bill was received from a representative of the Kansas Association of School Boards as a proponent, a representative of the Kansas Center for Economic Growth as neutral, and representatives of The Kansas Chamber and the Kansas Policy Institute as opponents. The House Taxation Committee on February 9 adopted amendments to repeal the exemption for non-wage business income, remove the subtraction modification provisions for certain livestock, add a third bracket, and make several technical adjustments. The Committee also recommended a substitute bill be created.

The latest fiscal information provided by the Department of Revenue indicated the substitute bill would be expected to increase SGF receipts by the following amounts:

- FY 2018: $590.2 million
- FY 2019: $453.8 million
- FY 2020: $458.6 million
- FY 2021: $463.4 million
- FY 2022: $468.2 million