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January 30, 2019

Select Committee on Federal Tax Code Implementation
300 SW 10th St.
Topeka, Kansas 66612

Re: Kansas Conformity to Federal Tax Code - Senate Bill 22

Dear Committee Members:

Thank you for inviting me to testify today in support of Senate Bill 22. This bill addresses Kansas' conformity to the Internal Revenue Code, as amended by the Tax Cuts and Jobs Act ("TCJA"). The TCJA was one of the most comprehensive tax reform bills in the history of the federal income tax and significantly changed the federal income tax base. States, including Kansas, use federal taxable income as the starting point for computing the state tax base. Thus, absent specific decoupling provisions, Kansas automatically conforms to the drastic changes of the TCJA. At the federal level, these base broadening provisions were coupled with federal tax rate cuts. However, since Kansas is not reducing its corporate income tax rate, Kansas corporate taxpayers face a significant state tax increase if Kansas blindly conforms to the provisions of the TCJA.

Senate Bill 22 proposes to exclude from the Kansas tax base the following new categories of income included in federal taxable income under the TCJA:

- Foreign earnings deemed repatriated under IRC § 965: Like many other states, it is Kansas' history tax policy not to tax foreign income. Including deemed repatriated foreign earnings in the Kansas tax base is contrary to this policy because it would be taxation of income earned in a foreign trade or business. Furthermore, providing a 100% deduction for amounts included in income under IRC section 965 avoids significant apportionment complexity and potential constitutional disputes.
- Global intangible low-taxed income ("GILTI"): GILTI is income earned in foreign business operations by foreign corporations that is required to be reported by the US shareholders of such foreign corporations under IRC § 951A. Thus, inclusion of GILTI in the state tax base is contrary to Kansas' policy of not taxing foreign income. Furthermore, providing a 100% deduction for GILTI avoids significant apportionment complexity and potential disputes.

Sincerely,



Kathleen Quinn

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