

SESSION OF 2013

SUPPLEMENTAL NOTE ON SENATE BILL NO. 78

As Amended by Senate Committee on
Assessment and Taxation

Brief*

SB 78, as amended, would freeze the current sales and use tax rate at 6.3 percent and make several changes to the individual income tax.

The current sales and use tax rate, which is scheduled under current law to be reduced from 6.3 to 5.7 percent on July 1, 2013, would remain at 6.3 percent. Disposition of revenue provisions are adjusted such that all of the additional revenue would be deposited in the State General Fund (SGF).

Relative to the individual income tax, the Kansas itemized deduction for qualified residential interest as determined pursuant to section 163 of the federal Internal Revenue Code (mortgage interest) would be repealed beginning in tax year 2013.

A new series of individual income tax rate cuts would be provided beginning in tax year 2014, when the current bottom bracket of 3.0 percent would be reduced to 2.5 percent; and further reduced to 1.9 percent beginning in tax year 2016. The current top bracket of 4.9 percent also would be reduced to 3.5 percent beginning in tax year 2017. Beyond the aforementioned rate reductions, another provision of the bill would provide a formula for additional rate relief beginning in tax year 2016 when actual SGF receipts from taxes have grown by more than four percent from one fiscal year to the next.

*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

The original bill was requested for introduction by the Governor, whose budget recommendations did not contemplate any income tax rate changes or another provision of the introduced bill that would have repealed the state itemized deduction for property taxes paid. The Senate Assessment and Taxation Committee recommended an amendment to remove this latter provision on February 12.

The provision relating to additional rate reductions attributable to SGF growth beyond four percent has not been assigned any fiscal impact because revenue projections utilized in the *Governor's Budget* never exceed that level.

Based on the latest fiscal information available from the Department of Revenue, the Senate Assessment and Taxation Committee version of the bill would be expected to have the following impact on SGF receipts:

(\$ in millions)

	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>5-yr total</u>
Sales/Use						
Rate Freeze	\$ 262.3	\$ 296.9	\$ 308.0	\$ 319.5	\$ 331.5	\$ 1,518.2
Mortgage						
Interest Deduction	162.5	131.7	138.3	145.2	152.5	730.2
Income Tax						
Rate Changes	<u>(37.9)</u>	<u>(128.1)</u>	<u>(184.6)</u>	<u>(512.3)</u>	<u>(1,008.0)</u>	<u>(1,870.9)</u>
Total	\$ 386.9	\$ 300.5	\$ 261.7	\$ (47.6)	\$ (524.0)	\$ 377.5