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MEMORANDUM

To: Senate Committee on Assessment and Taxation
From: Office of Revisor of Statutes
Date: January 29, 2025
Subject: Senate Bill No. 25, As Introduced

Summary

Senate Bill No. 25 relates to property and casualty insurance and taxation. The bill would enact the insurance savings account act to allow individuals and corporations to establish insurance savings accounts and provide for accompanying addition and subtraction modifications under the Kansas income tax act.

The bill would enact the insurance savings account act that would allow individuals and corporations to establish insurance savings accounts with certain financial institutions on and after January 1, 2026. The maximum contribution to an account in any tax year would be \$6,000 for an individual, \$12,000 for a married couple filing a joint return and \$25,000 for a corporation. If a limit is exceeded, then the interest or other income earned on the excess investment would be subject to income tax.

New Section 4, subsection (a), provides that "[t]he moneys in an insurance savings account may be:

- (1) Used for eligible expenses;
- (2) transferred to another newly created account;
- (3) invested in certificates of deposit opened and designated as insurance savings accounts; and
- (4) used to pay service fees assessed by the financial institution."

Eligible expenses are defined in New Section 2, subsection (d).

"(d) "Eligible expenses" means:

- (1) Premiums paid to an insurance company, as defined in K.S.A. 40-201, and amendments thereto, whether paid directly or through a broker or agent, for the types of insurance described in K.S.A. 40-901 or 40-1102, and amendments thereto; and
- (2) deductibles paid related to a claim under a contract of insurance of the type described in K.S.A. 40-901 or 40-1102, and amendments thereto."

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The bill would also amend K.S.A. 2024 Supp. 79-32,117 and 79-32,138 to establish addition and subtraction modifications under the Kansas income tax act commencing with tax year 2026 for both individuals and corporations. The subtraction modification for individuals would allow the subtraction from federal adjusted gross income of the amount contributed to an insurance savings account in an amount not to exceed \$6,000 for an individual or \$12,000 for a married couple filing a joint return or amounts received as income earned from assets in an insurance savings account, excluding amounts received as income earned from excess contributions. (See page 14.) The subtraction modification for corporations would allow the subtraction of the amount contributed to an insurance savings account in an amount not to exceed \$25,000 or amounts received as income earned from assets in an insurance savings account, excluding amounts received as income earned from excess contributions. (See page 16.)

Moneys withdrawn from an account would be subject to recapture if the moneys were not used for authorized purposes pursuant to New Section 4(a). The addition modifications for individuals and corporations would provide for the addition of the amount of any distributions or withdrawals from an insurance savings account that were not used to pay for authorized expenses or transactions. (See pages 8 and 15.)

The secretary of revenue would establish forms for an account holder to annually report information about any accounts held by such account holder. Prior to December 1, 2025, the secretary of revenue would adopt rules and regulations necessary to administer the provisions of this act. An account holder would be responsible to file all forms and supporting documentation the secretary requires with their state income tax return.

Financial institutions would not be required to designate an account as an insurance savings account in the financial institution's account contracts or systems, track the use of moneys withdrawn from an account nor report any information to the department of revenue or any other governmental agency that is not otherwise required by law.

The commissioner of insurance would have nonexclusive authority to market the insurance savings account program to account holders and financial institutions throughout the state and may report on the marketing initiatives on the insurance department's website.

The bill would take effect from and after its publication in the statute book.