

Personal Exemption Changes, Corporation Income Tax Apportionment, Personal Property Tax Exemption, Tax Freeze Refund Expansion; HB 2231

HB 2231 modifies Kansas income tax personal exemption provisions, redefines “income” for a refund option within the Homestead Property Tax Refund Act, amends the apportionment of income of multistate corporations and makes associated changes, and exempts certain personal property from taxation.

Personal Exemption Changes

The bill establishes, beginning in tax year 2024, that head-of-household filers are allowed an additional personal exemption of \$2,320, and it increases the additional personal exemption for 100 percent permanently disabled military veterans to the same amount.

“Tax Freeze” Refund Program Changes

The bill, for purposes of the refund option of the amount of tax in excess of the base year amount under the Homestead Property Tax Refund Act, establishes the definition of income, for tax year 2025 and all years thereafter, to be the Kansas adjusted gross income of the taxpayer.

[Note: The Homestead Property Tax Refund Act includes three different refund options. The definition of income for the other two refund options is not impacted by the bill.]

Corporation Income Tax Changes

The bill requires, beginning in tax year 2027, most corporations with income in multiple states to apportion their income for Kansas income tax purposes based upon the share of the corporation’s total sales that occur in Kansas. The bill also provides for a reduction to the corporation income tax rate and a deferred tax deduction for certain corporations.

The bill also makes various conforming changes, including a conforming amendment to Kansas’ adoption of the Multistate Tax Compact to implement the provisions of the bill.

Sales Factor Apportionment

Beginning in tax year 2027, the bill generally provides corporation income of multistate corporations to be apportioned using only the sales factor, rather than using a formula incorporating sales, property, and payroll factors.

The bill also adopts, beginning in tax year 2027, market-based sourcing in determining sales within the state for the purposes of apportioning income. The bill specifies market-based sourcing rules for specific situations of sales of services, sales of intangible property, interest from loans, payment of dividends, and sales of communications services.

For financial institutions, the receipts factor, as defined in continuing law, is to be used in lieu of the sales factor.

A provision requiring the apportionment of income for railroads and interstate motor carriers based on the share of miles operated in Kansas is repealed at the end of tax year 2026, and such entities will have their income apportioned in accordance with provisions applicable to other corporations.

Manufacturers of alcoholic liquor will continue to have income apportioned using the three-factor formula as under current law.

Corporation Income Tax Rate Reduction

The bill provides for a reduction to the normal tax rate for corporations beginning in tax year 2029 based upon the amount corporation income tax receipts in FY 2028 exceed those of FY 2027, as certified by the Director of the Budget in consultation with the Director of Legislative Research.

The Secretary of Revenue is required to compute the reduction in the rate rounded down to the nearest 0.1 percent that would result in an amount of reduced tax approximately equal to the amount certified by the Director of the Budget.

The Secretary of Revenue is required to publish any new tax rate under provisions of the bill by October 1, 2028.

Deferred Tax Deduction

The bill allows publicly traded companies whose financial statements are prepared in accordance with Generally Accepted Accounting Principles to claim a deferred tax deduction from the taxpayer's net business income before apportionment in an amount as specified by the bill.

The deduction, which the bill allows to be claimed after applying other available tax credits, is equal to the increase in the taxpayer's deferred tax impact caused by the requirement for the use of the sales factor for income apportionment divided by the corporation tax rate and the taxpayer's apportionment factor multiplied by 1/10. The bill authorizes claiming the deduction in ten equal installments, beginning in tax year 2025.

The deduction, which is not to be adjusted based upon events subsequent to the calculation of the deduction amount, may be carried forward and applied in future years until fully utilized if it is greater than the taxpayer's net business income before apportionment.

A taxpayer seeking to claim such deduction must file a statement with the Secretary of Revenue on or before July 1, 2027, specifying the total amount of the claimed deduction.

Personal Property Tax Exemption

The bill exempts, beginning in tax year 2026, the following personal property from all property or ad valorem taxes:

- Any snowmobile, all-terrain vehicle, recreational off-highway vehicle, motorcycle manufactured for off-road use, or golf cart, that is not operated upon any highway;
- Any motorized bicycle, electric-assisted bicycle, electric-assisted scooter, electric personal assistive mobility device, or motorized wheelchair, as those terms are defined in law;
- Any trailer having a gross weight of 15,000 pounds or less, used exclusively for personal use and not the production of income;
- Any watercraft; and
- Any watercraft trailer designed to launch, retrieve, transport, and store watercraft, and any watercraft motor designed to operate watercraft on the water.