

SESSION OF 2025

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2336

As Amended by House Committee on Taxation

Brief*

HB 2336, as amended, would require, 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 would also provide for a reduction to the corporation income tax rate and a deferred tax deduction for certain corporations.

The bill would also make various technical and conforming changes.

Sales Factor Apportionment

The bill would provide for corporation income of multistate corporations, currently generally apportioned using a three-factor formula consisting of sales, property, and payroll factors, to be apportioned using only the sales factor beginning in tax year 2027.

The bill also would adopt market-based sourcing in determining sales within the state for the purposes of apportioning income. The bill would specify 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, would be used in lieu of the sales factor.

*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 <https://klrd.gov/>

A provision requiring the apportionment of income for railroads and interstate motor carriers based on the share of miles operated in Kansas would be repealed on July 1, 2025, and such entities would have their income apportioned in accordance with provisions applicable to other corporations.

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

Corporation Income Tax Rate Reduction

The bill would provide for a reduction to the normal tax rate for corporations beginning in tax year 2028 based upon the amount corporation income tax receipts in FY 2026 exceed those of FY 2025, as certified by the Director of the Budget in consultation with the Director of Legislative Research.

The Secretary of Revenue would be 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 would be required to publish the tax rate to take effect on January 1, 2028, by October 1, 2027.

Deferred Tax Deduction

The bill would allow 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 would allow to be claimed after applying other available tax credits, would be equal to the increase in the taxpayer's deferred tax impact caused by the requirement of 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 would authorize claiming the deduction in ten equal installments, beginning in tax year 2025.

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

Taxpayers seeking to claim such deduction would be required to file a statement with the Secretary of Revenue on or before July 1, 2027, specifying the total amount of claimed deduction.

Background

The bill was introduced by the House Committee on Taxation at the request of a representative of the Kansas Chamber of Commerce.

House Committee on Taxation

In the House Committee hearing, **proponent** testimony was provided by a representative of the Kansas Chamber of Commerce, generally stating the bill would move Kansas towards a method of corporation income tax apportionment used by most states while including provisions to lessen negative impacts to corporations that might be adversely impacted by the change.

Written-only proponent testimony was provided by representatives of Cargill; Hallmark; Kansas Bankers Association; Kansas City, Kansas Chamber of Commerce; Kansas Grain and Feed Association; and Pfizer.

Written-only **opponent** testimony was provided by representatives of the Center on Budget and Policy Priorities and Kansas Action for Children.

No other testimony was provided.

The House Committee amended the bill to eliminate a three-year option period for the use of the sales factor with implementation in 2027 and to allow manufacturers of alcoholic liquor to continue to use the three-factor formula for apportionment.

Fiscal Information

According to the Department of Revenue, the bill, as amended, would reduce State General Fund receipts. The timing and amount of the reduction of receipts is uncertain. The changes to the apportionment provisions would reduce state receipts beginning in FY 2028 at the latest and possibly as soon as FY 2026. The reduction of receipts associated with the deferred tax deduction is anticipated to commence in FY 2035.

Any fiscal effect associated with enactment of the bill is not reflected in *The FY 2026 Governor's Budget Report*.

Taxation; corporation income tax; apportionment; sales factor