UPDATED
SESSION OF 2012

SUPPLEMENTAL NOTE ON SENATE SUBSTITUTE FOR HOUSE BILL NO. 2117

As Amended by Senate Committee of the Whole

Brief*

Senate Sub. for HB 2117 would implement a number of major changes in income taxes effective for tax year 2013; repeal a severance tax exemption; and restrict participation in the Homestead Property Tax Refund program.

Income Tax Provisions

Rate Reduction and Restructuring

One major part of the bill would take the current three-bracket structure for individual income taxes (3.5, 6.25, and 6.45 percent) and collapse it into a two-bracket system using rates of 3.0 and 4.9 percent.

Business Income Exemption

The bill would totally exempt certain non-wage business income that under current law is subject to individual income tax (income reported by LLC's, Subchapter-S Corporations, and sole proprietorships on lines 12, 17, and 18 of federal form 1040). Taxpayers availing themselves of this exemption would be excluded from receiving another credit designed to the eliminate liability of certain resident individuals pursuant to KSA 2011 Supp 79-32,266.

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*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

Tax Credits

Additional sections would repeal tax credits currently allowed to individuals (but not to corporations) for food sales tax rebates; abandoned well plugging; adoption expenses; agritourism; alternative fuel equipment expenditures; assistive technology; child and dependent care expenses; child day care expenses; disabled access expenditures; environmental compliance expenditures; individual development account contributions; law enforcement training center contributions; small employer health benefit plan contributions; swine facility improvement expenditures; port authority contributions; small employer health benefit plan contributions; swine facility improvement expenditures; telecommunications property tax payments; venture capital contributions; and certain temporary assistance to family contributors.

Standard Deduction

Other language would increase the standard deduction amount for single head-of-household filers from $4,500 to $9,000; and for married taxpayers filing jointly from $6,000 to $9,000.

Other Income Tax Provisions

Additional provisions of the bill would eliminate a subtraction modification for certain long-term care insurance expenditures; and eliminate the ability of individuals to utilize the income tax deduction for expensing enacted in 2011.

Severance Tax Provisions

The two-year new pool severance tax exemption would be repealed relative to all oil production from any pool producing in excess of 50 barrels per day, provided the initial production occurs on and after July 1, 2012.

Homestead Program

Beginning in tax year 2013, renters would no longer be eligible to participate in the Homestead Property Tax Refund program.

Background

The subject matter of the House Committee of the Whole version of the bill (repeal of defunct language in sales tax statutes and allowing certain employers to retain employee withholding taxes), approved in 2011, was addressed in other legislation adopted during the 2011 session. The Senate Assessment and Taxation Committee on March 14 voted to remove all of these provisions; recommend that a substitute bill be created; and insert the aforementioned tax reform provisions--many of which were contained originally in SB 339, a proposal recommended by the Governor at the outset of the 2012 Session.

Among features of the Governor's plan which the Senate Committee removed were the proposed repeal of the earned income tax credit; proposed repeal of additional credits relating to historic preservation, angel investor contributions, and community service; proposed elimination of the subtraction modification associated with Learning Quest program contributions; and a mechanism that would have provided for formulaic tax reductions in future years based on growth in selected SGF receipts.

The Senate Committee of the Whole amended the bill to remove that part of the Governor's recommendation that would have maintained the sales tax rate at 6.3 percent on and after July 1, 2013 (when it is currently scheduled to be reduced to 5.7 percent). A second Senate Committee of the Whole amendment removed the proposed repeal of itemized deductions. A third Senate floor amendment increased the standard deduction for joint filers.

The latest fiscal information available from the Department of Revenue as of May 10 indicates that the Senate Committee of the Whole version of the bill would be expected to have the following impact on SGF receipts (dollars in millions):

SGF RECEIPTS

	Income	Severance	Total
FY 2013	$ (249.2)	$ 18.0	$ (231.2)
FY 2014	(847.8)	45.0	(802.8)
FY 2015	(884.3)	60.0	(824.3)
FY 2016	(924.2)	70.0	(854.2)
FY 2017	(967.9)	75.0	(892.9)
FY 2018	(1,013.7)	80.0	(933.7)
6-yr Total	$ (4,887.1)	$ 348.0	$ (4,539.1)