SESSION OF 2017

SUPPLEMENTAL NOTE ON SUBSTITUTE FOR HOUSE BILL NO. 2395

As Recommended by House Committee on Taxation

Brief*

Sub. for HB 2395 would make a number of changes in the Kansas individual income tax structure and would reduce the sales tax rate on food.

Individual Income Tax Changes—Tax Year 2017

The bill would repeal, effective for tax year 2017, the exemption for non-wage business income that has been in effect since tax year 2013. Taxpayers could also begin claiming certain non-wage business income losses in conformity with federal treatment (but would not be able to file amended returns for previous tax years when such losses were not eligible to be claimed for Kansas income tax purposes). Special subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales would be repealed.

Individual Income Tax Changes—Tax Year 2018 and Thereafter

Individual income tax rates would be collapsed into a single bracket of 5.00 percent beginning in tax year 2018. (Current law provides for a two-bracket system with rates of 2.60 and 4.60 percent for that tax year.) Additional formulaic provisions that could have provided for rate reductions in

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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 certain future years based on growth in selected State General Fund (SGF) tax receipts would be repealed.

Medical expenses allowed as itemized deductions under federal law also would become available as Kansas itemized deductions beginning in tax year 2018. (Legislation enacted in 2015 had repealed the medical expense deduction altogether for state income tax purposes.)

Also effective in tax year 2018, standard deductions would be increased (from $3,000 to $7,500 for single taxpayers; from $7,500 to $15,000 for married taxpayers filing jointly; and from $5,500 to $11,000 for heads of household).

Food Sales Tax Reduction

On January 1, 2019, the state sales tax on food and food ingredients would be reduced from the current 6.5 percent rate to 5.0 percent. This tax reduction would apply to bottled water; but would not apply to alcoholic beverages, tobacco, candy, dietary supplements, soft drinks, or food sold through vending machines.

Background

Individual income tax legislation originally enacted in 2012 provided for the non-wage business income exemption. A three-bracket system (3.50 percent, 6.25 percent, and 6.45 percent), largely unchanged since the early 1990s, was also amended at that time to become a two-bracket system (with rates set at 3.0 and 4.9 percent for tax year 2013 and all years thereafter). Additional changes in that 2012 legislation included the repeal of various tax credits, removal of renters from the Homestead Property Tax Refund program, and increases in standard deductions.

Follow-up legislation enacted in 2013 made a number of reductions to itemized and standard deductions, provided for additional income tax rate reductions to be phased in through tax year 2018, and established formulaic relief that could occur in future years.

A third major round of changes to the state tax structure enacted in 2015 included removing some of the income tax rate reductions scheduled to occur through tax year 2018, adjusting the formulaic provisions, reducing itemized deductions further, increasing the sales tax rate, and increasing the cigarette tax rate.

The following table provides additional details regarding the income tax brackets under prior law, current law, and the proposal in the bill.

Individual Income Tax Brackets, Married Filing Jointly

Taxable Income	Tax Years 1992-2012	Current Law Tax Year 2018	Sub. for HB 2395 Tax Year 2018
$0-30,000	3.50%	2.60%	5.00%
30,001-60,000	6.25	4.60	5.00
60,001 and above	6.45	4.60	5.00

The original bill, which would have imposed a one-bracket (5.0 percent) system beginning in tax year 2017, would have reduced SGF receipts by $82.8 million in FY 2018 and by $64.4 million in FY 2019. In the House Committee on Taxation hearing, representatives of the Kansas Center for Economic Growth, Kansas Action for Children, and the Kansas Policy Institute testified in opposition. No other testimony was provided.

On March 28 and 29, the House Committee removed the bill's original contents, recommended that a substitute bill be created, and inserted the aforementioned income and sales tax provisions.

According to the latest fiscal information from the Department of Revenue, the substitute bill would increase SGF receipts by $373.7 million for FY 2018 and by $472.7 million for FY 2019. State Highway Fund receipts for FY 2019 would decrease by $6.3 million. Any fiscal effect associated with the bill is not reflected in *The FY 2018 Governor's Budget Report*.