

Sales and Income Tax; HB 2059

HB 2059 makes a number of adjustments to sales and income tax law; clarifies the severance tax law on helium; expands the Rural Opportunity Zone (ROZ) Program; makes a minor change regarding the transfer of title of certain tax-exempt property; and authorizes tax abatement for disaster-damaged property.

Sales Tax Provisions

The bill sets the sales and use tax rate at 6.15 percent on July 1, 2013. The rate since July 1, 2010, had been 6.3 percent but had been scheduled to be reduced to 5.7 percent on July 1, 2013.

Sales and use tax disposition of revenue provisions are adjusted to provide that the net of additional revenues in excess of 5.7 percent is to be deposited exclusively into the State General Fund (SGF).

Income Tax Provisions

Relative to the individual income tax, a number of changes are enacted to Kansas itemized deductions. The deduction for certain gambling losses is repealed altogether. Most other itemized deductions (except the deduction for charitable contributions, which is fully retained) are reduced by 30 percent in tax year 2013; 35 percent in tax year 2014; 40 percent in tax year 2015; 45 percent in tax year 2016; and 50 percent in tax year 2017 and thereafter.

Kansas standard deduction levels for married taxpayers filing jointly and for single heads-of-household are reduced to \$7,500 and \$5,500 respectively, beginning in tax year 2013. Legislation enacted in 2012 had raised both standard deduction levels (from \$6,000 for married filing jointly and \$4,500 for heads of household) to \$9,000 beginning in tax year 2013.

A new series of individual income tax rate cuts are provided beginning in tax year 2014, when the current bottom bracket of 3.0 percent is reduced to 2.7 percent, and the current top bracket of 4.9 percent is reduced to 4.8 percent. In tax year 2015, the top bracket is further reduced to 4.6 percent. The two rate brackets are set at 2.4 and 4.6 percent, respectively, in tax year 2016; 2.3 and 4.6 in tax year 2017; and 2.3 and 3.9 percent in tax year 2018.

Future formulaic income tax rate relief could be provided under certain circumstances, beginning as early as tax year 2019, based on the extent to which a specified group of SGF tax sources has increased over the previous fiscal year. Generally, rate relief will be triggered under the formula once that group of taxes exceeds the previous fiscal year's levels (beginning with FY 2018 growth over FY 2017) by 2 percent or more.

Additional language partially restores the food sales tax rebate program, which had been repealed altogether by 2012 law. The income tax credits that may be claimed by eligible households now will be nonrefundable, whereas under prior law (before the repeal) the credits had been refundable.

Severance Tax on Helium

The definition of natural gas for severance tax purposes also is modified to clarify that it includes “all other raw, unrefined gases, all constituent parts of any such gas or gases and refined products derived from any such gas or gases, including, but not limited to, methane, ethane, propane, butane, and helium.”

The bill further eliminates retroactively all refund claims associated with the notion that any constituent part of gas and any refined products derived from gas were not taxable under the 1983 severance tax imposition.

ROZ Program

The bill places 23 additional counties (generally those with populations of 15,000 or less) into the ROZ Program. The program offers individuals who relocate from outside of the state to qualifying counties a full state income tax exemption through tax year 2016 and the opportunity to receive student loan repayments from those qualifying counties that also have chosen to participate in a special repayment-matching program with the state.

The following counties are added to the former 50 counties designated as ROZ-eligible: Allen, Anderson, Bourbon, Brown, Chase, Clay, Coffey, Doniphan, Ellsworth, Grant, Gray, Haskell, Jackson, Linn, Marshall, Meade, Morris, Nemaha, Neosho, Ottawa, Rice, Stevens, and Wabaunsee.

Title of Certain Tax-Exempt Property

The bill removes a requirement that the title of certain tax-exempt property constructed or purchased with the proceeds of Industrial Revenue Bonds (IRBs) be transferred to the city or county issuing the IRBs during the duration of the exemption.

Tax Abatement for Disaster-Damaged Property

The bill authorizes counties to grant property tax abatement or credits to owners of homesteads destroyed or substantially destroyed by earthquake, flood, tornado, fire, storm, or other event that the Governor has declared a disaster, taking effect for taxable years after December 31, 2011, and ending before January 1, 2014.

If the destruction occurs between January 1 and August 15, the owner may apply to the board of county commissioners for the abatement on property taxes due in the current year; or if, in this time period, the taxes have been paid or partially paid, the homeowner may apply for a credit against property taxes payable during any or all of the following three taxable years. If the destruction occurs after August 15 but before the end of the year, the owner may apply to the board of county commissioners for a credit against taxes payable by the owner during any or all of the following three taxable years.

The bill is expected to have the following impact on receipts:

Disaggregated Details of HB 2059
(\$ in millions)

Sales Tax Provisions		Income Tax Provisions						Total
6.15%	Item Ded. Haircut	Changes Std. Ded.	Rate Cuts	ROZ	FS Rebates	Net Inc. Tax		
FY 2014	\$ 193.2	\$ 114.6	\$ 56.3	\$ (35.2)	\$ (1.0)	\$ (20.0)	\$ 114.7	\$ 307.9
FY 2015	218.7	107.4	59.1	(145.1)	(2.0)	(21.0)	(1.6)	217.1
FY 2016	226.9	127.0	62.1	(238.3)	(3.1)	(22.1)	(74.4)	152.6
FY 2017	235.4	148.3	65.2	(317.4)	(4.2)	(23.2)	(131.3)	104.1
FY 2018	244.3	166.5	68.4	(459.5)	0.0	(24.3)	(248.9)	(4.6)
5 yr-total	\$ 1,118.5	\$ 663.8	\$ 311.1	\$ (1,195.5)	\$ (10.3)	\$ (110.5)	\$ (341.4)	\$ 777.1

Note: Totals may not add due to rounding