

SESSION OF 2015

**SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR
SENATE BILL NO. 270**

As Passed Without Recommendation by House
Committee on Taxation

Brief*

House Sub. for SB 270, as advanced without recommendation, would make a number of changes in sales and compensating use tax laws and in individual income tax provisions, and would enact a tax amnesty for a number of tax sources.

Amnesty Provisions

The bill would authorize a tax amnesty for penalties and interest relative to certain delinquent taxes provided such taxes are paid in full from September 1, 2015, to October 15, 2015. The amnesty would apply to privilege, income, estate, cigarette, tobacco products, liquor enforcement, liquor drink, severance, state sales, state use, local sales, and local use taxes. The amnesty would be limited to penalties and interest applied to liabilities associated with tax periods ending on or before December 31, 2013.

The amnesty would not apply to any matter for which, on or after September 1, 2015, taxpayers have received notices of assessment or for which an audit had previously been initiated. Any fraud or intentional misrepresentation in connection with an amnesty application would void the application and waiver of any penalties and interest.

*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>

Sales and Use Tax Provisions

The statewide sales tax and use rate for most purchases would be increased from 6.15 percent to 6.85 percent on July 1, 2015. A second rate of 5.90 percent would apply to certain purchases of food or food ingredients sold for ingestion or chewing by humans and consumed for their taste or nutritional value. Sales of certain items would be specifically excluded from the lower rate, including candy, dietary supplements, food sold through vending machines, prepared food, and soft drinks.

Statutory disposition-of-revenue percentages would be adjusted for both taxes to provide that the entire estimated amount of new revenue associated with the changes would flow to the State General Fund (SGF) while maintaining the current estimated level of receipts flowing to the State Highway Fund (SHF).

Individual Income Tax Provisions

A number of changes would be enacted for Kansas itemized deductions retroactive to January 1 (the start of tax year 2015). With the exception of charitable contributions, mortgage interest, and property taxes paid, all Kansas itemized deductions would be repealed. The current changes in the percentage that could be deducted (“haircuts”) being phased in for mortgage interest and property taxes paid relative to the amount that otherwise is allowed for federal income tax purposes would be accelerated such that the final 50 percent haircut currently scheduled for tax year 2017 would be effective immediately. (Charitable contributions would remain fully deductible for Kansas taxpayers able to itemize at the state level, as under current law.)

The bottom individual income tax bracket for tax year 2015, currently set at 2.70 percent, would be reduced to 2.55 percent. (All other future changes in income tax rates scheduled for tax year 2016 and beyond would be retained.)

Background

The original bill would have made several changes to the Tax Credit for Low Income Students Scholarship Program Act. The House Taxation Committee on May 13 struck the bill's original provisions, recommended that a substitute bill be created, inserted all the other provisions described above, and advanced the new substitute bill for further consideration without recommendation.

The Kansas Department of Revenue indicated the total amount of additional tax receipts collected as a result of the amnesty would be \$36.088 million, \$30 million of which would be deposited in the SGF, \$2.471 million of which would be deposited in the SHF, and \$3.618 million of which would be returned to local units levying sales and use taxes. The latest estimated disaggregation of the amnesty receipts by tax source is as follows:

	(\$ in millions)			
	SGF	SHF	Local	Total
Sales	\$ 10.000	\$ 2.059	\$ 3.015	\$ 15.073
Use	2.000	0.412	0.603	3.015
Individual Income	12.000	0.000	0.000	0.000
Corporate Income	5.000	0.000	0.000	0.000
Cigarette	0.500	0.000	0.000	0.000
Liquor Enforcement	0.500	0.000	0.000	0.000
TOTAL	\$ 30.000	\$ 2.471	\$ 3.618	\$ 36.088

Relative to the combined provisions of the bill for the SGF, the following table provides a disaggregation through FY 2018:

	(\$ in millions)		
	FY 2016	FY 2017	FY 2018
Sales and Use Tax (Food at 5.90%; Other at 6.85%)	\$ 271.000	\$ 308.200	\$ 319.800
Itemized Deduction Changes	97.000	78.600	78.700
Dropping Bottom Income Tax Rate to 2.55% for Tax Year 2015	(35.300)	n/a	n/a
Tax Amnesty	30.000	n/a	n/a
TOTAL	\$ 362.700	\$ 386.800	\$ 398.500