

SESSION OF 2018

**SUPPLEMENTAL NOTE ON SENATE SUBSTITUTE FOR
HOUSE BILL NO. 2228**

As Amended by Senate Committee of the Whole

Brief*

Senate Sub. for HB 2228, as amended by the Senate Committee of the Whole, would make a number of changes to individual and corporation income tax provisions.

One major component of the bill would remove a restriction under current law preventing Kansas individual income taxpayers from itemizing deductions for state income tax purposes unless they also are itemizing deductions for federal income tax purposes. Beginning with tax year 2018, the bill would provide an option to take Kansas itemized deductions regardless of whether itemized or standard deductions are being claimed at the federal level.

A second change relative to Kansas itemized deductions would accelerate the restoration of certain federal itemized deductions for state income tax purposes provided by income tax reform and restructuring legislation (SB 30) enacted in 2017. Current Kansas law provides for the availability of itemized deductions for medical expenses, mortgage interest, and property taxes paid equivalent to 50.0 percent of the allowable federal amounts in tax year 2018; 75.0 percent in tax year 2018; and 100.0 percent beginning in tax year 2020. These three itemized deductions would now be available at 100.0 percent of the federal allowable amount beginning in tax year 2018.

Additional provisions of the bill would increase current Kansas standard deduction amounts by 25.0 percent relative

*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>

to current law beginning in tax year 2018. The deduction for single filers would be increased from \$3,000 to \$3,750; for heads of household from \$5,500 to \$6,875; and for married taxpayers filing jointly from \$7,500 to \$9,375.

Certain individual income taxpayers would become eligible to claim the expensing deduction (available under KSA 2017 Supp. 79-32,143a) for the costs of placing certain tangible property and computer software into service in the state. These provisions would be retroactive to tax year 2017.

Other language would clarify for tax year 2017 and thereafter that the state would be taxing 20.0 percent of deferred foreign income, defined to include income under section 965(a) of the federal Internal Revenue Code (certain repatriation income) after allowing for deductions, and for tax year 2018 and thereafter 20.0 percent of global intangible low-taxed income under section 250(b)(1) after allowing for deductions.

An additional provision of the bill would authorize non-refundable income tax credits beginning in tax year 2018 equivalent to 50.0 percent of certain amounts contributed to the Eisenhower Foundation. Any such credits claimed could not exceed \$25,000 for any individual income taxpayer or \$50,000 for corporation income taxpayers. The maximum amount of credits that could be claimed in any fiscal year would be \$350,000.

Additional provisions would enact a second new non-refundable income tax credit for tax years 2018-2022 equivalent to 15.0 percent of expenditures on goods and services purchased from qualified vendors or non-profit certified businesses providing a certain level of health insurance benefits and having at least 30.0 percent of their employees be resident Kansans with disabilities. The amount of the credit would be capped at \$500,000 for each qualified vendor each tax year, and the total amount of cumulative credits allowed for the life of the program would be capped at \$5.0 million. The Secretary of Revenue also would be

required to make an annual report to the standing taxation committees on the implementation and effectiveness of the tax credit program.

Another section of the bill would provide an income tax exemption available for tax years 2012-2020 under certain circumstances for taxpayers who have established residence in Crawford or Cowley counties when such taxpayers had been domiciled outside the state for at least five previous years and had Kansas source income of less than \$10,000 per year.

Background

The subject matter of HB 2228, as introduced, involved eliminating filing requirements with the State Board of Tax Appeals for owners of certain tax-exempt property. Those provisions were enacted in HB 2212 during the 2017 Session. The Senate Committee on Assessment and Taxation on March 23, 2018, replaced the bill's original contents with the aforementioned income tax provisions and recommended a substitute bill be created. The tax credit provisions relative to donations to the Eisenhower Foundation and for goods and services purchased from qualified vendors were inserted by the Senate Committee of the Whole on April 7. The Senate Committee of the Whole, on April 7, also added the exemption for certain taxpayers establishing residence in Crawford and Cowley counties.

Allowing all taxpayers to itemize deductions for state income tax purposes was the subject matter of SB 453. The expensing provisions were originally in SB 303.

A fiscal note on the Senate Committee of the Whole version of the bill was not immediately available.