

Individual Income Tax—Reform and Restructuring; SB 30

SB 30 makes a number of changes in the Kansas individual income tax structure and several adjustments to statutory provisions in relation to Sales Tax and Revenue (STAR) Bonds.

Individual Income Tax Provisions

The bill repeals, effective for tax year 2017, the exemption for non-wage business income that has been in effect since tax year 2013. Taxpayers also may begin claiming certain non-wage business income losses in conformity with federal treatment (but are 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 Special subtraction modification provisions relating to net gains from certain livestock and Christmas tree sales are repealed.

The bill allows as an itemized deduction for individual income tax purposes 50.0 percent of medical expenses currently allowed under federal law for tax year 2018. The amount is increased to 75.0 percent of the federal allowable amount for tax year 2019 and to 100.0 percent in tax year 2020 and thereafter. Itemized deductions for mortgage interest and property taxes paid, currently set at 50.0 percent of the federal allowable amounts, are increased to 75.0 percent for tax year 2019 and to 100.0 percent beginning in tax year 2020.

A child and dependent care tax credit that had been repealed in 2012 is restored in stages. The credit is set at 12.50 percent of the allowable federal amount for tax year 2018, 18.75 percent for tax year 2019, and 25.00 percent (the level that had been utilized prior to the 2012 repeal) for tax year 2020 and thereafter.

Starting in tax year 2018, the low-income exclusion threshold (below which any positive income tax liability is otherwise eliminated) is reduced from \$12,500 to \$5,000 for married filers and from \$5,000 to \$2,500 for single filers.

Individual income tax rates are increased beginning in tax year 2017 utilizing a three-bracket system with rates of 2.9 percent, 4.9 percent, and 5.2 percent. For tax year 2018 and all years thereafter, a three-bracket system with rates of 3.1 percent, 5.25 percent, and 5.7 percent is used. Additional formulaic provisions that could have provided for rate reductions in certain future years based on growth in selected State General Fund (SGF) tax receipts are repealed.

STAR Bond Provisions

The bill extends the sunset date for the STAR Bond Financing Act from July 1, 2017, to July 1, 2020. For the first year of that extension, there is a moratorium on the approval of new STAR Bond districts, but cities or counties with existing districts may continue to develop projects.

Fiscal Effects

The bill is expected to increase SGF receipts, as follows:

- FY 2018—\$591.0 million;
- FY 2019—\$633.0 million;
- FY 2020—\$617.4 million;
- FY 2021—\$584.4 million; and
- FY 2022—\$590.3 million.