Kansas Society of CPAs

March 22, 2023

Senate Committee on Assessment and Taxation, Honorable Caryn Tyson, Chair

RE: Considerations for SB 313-Shawn Sullivan, member of the Kansas Society of CPAs (KSCPA)

Thank you, Senator Tyson and Committee members for the opportunity to provide information on SB 313 applicable to clarifications to the SALT Parity Act (K.S.A. 79-32,287). On behalf of the Kansas Society of CPAs, the professional association representing over 2,000 Certified Public Accountants (CPAs) and accountants in Kansas, we offer the following perspectives of our member CPAs.

Background

In 2022, the Kansas legislature enacted the SALT Parity Act. This legislation was in response to the Tax Cuts and Jobs Act of 2017's $10,000 limit on state and local tax deductions for federal itemized deductions. Under the SALT Parity Act, a partnership or S-corporation may elect to be taxed at the entity level starting with the entity's 2022 tax year. The partnership or S-corporation is then allowed a full unlimited state tax deduction in computing the entity's federal taxable income.

What We Are Trying to Clarify

During the 2023 tax filing season (for the 2022 tax year) Kansas CPAs and accountants and the Kansas Department of Revenue offered different interpretations of (1) how to calculate the Kansas tax liability for Kansas resident owners versus non-resident owners and (2) how to administer the income tax credit that the electing pass-through owner receives.

The Solution

KSA 79-32,287(a) Clarification (SB 313, Section 1). The changes break up the run on sentence and inserts clauses to more clearly explain how to calculate the taxable income for the electing pass-through entity. The intent of the SALT Parity Act was for the electing pass-through entity to pay state income taxes on its resident owners' income not apportioned to Kansas. That is because the resident owners will include 100% of their share of the entity's income in their Kansas taxable base at the individual or fiduciary filing level (*i.e.,* apportionment is ignored for the resident owners).

KSA 79-32,287(c) Clarification (SB 313, Section 1). This clarification helps to properly administer the application of the income tax credit that the electing pass-through entity owner receives. To avoid double taxation, and to retain the benefit of the tax incentive at the individual or fiduciary filing level, the electing pass-through entity owner receives an income tax credit equal to the tax imposed, before credits. The revised language clarifies the intended result that the owner should not be taxed twice on the same income and that state tax incentives provide their intended benefit.

Thank you in advance for supporting SB 313.

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