

SESSION OF 2013

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2084

As Amended by Senate Committee of the Whole

Brief*

HB 2084, as amended by the Senate Committee of the Whole, would make a number of adjustments to sales and income tax law.

Sales Tax Provisions

The bill would freeze the current sales and use tax rate at 6.3 percent for most purchases subject to taxation. The rate, currently scheduled to be reduced to 5.7 percent on July 1, 2013, would remain at 6.3 percent. A new separate rate of 4.95 percent would apply on January 1, 2014, for certain food, food ingredients, and food purchased through vending machines. Specifically excluded from the new lower rate on certain food purchases would be “prepared” food, defined generally to include food sold in a heated state; two or more food ingredients mixed or combined by sellers for sale as a single item; and food sold with eating utensils provided by sellers.

Sales and use tax disposition of revenue provisions would be adjusted, based on information provided by the Department of Revenue, to attempt to ensure that the net of additional revenues provided by these changes would be deposited exclusively into the State General Fund (SGF). But one Senate Committee of the Whole amendment that would decelerate the food rate change by six months would allow the State Highway Fund (SHF) to share in a small portion of the additional revenue during FY 2014 only.

*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>

Income Tax Provisions

Relative to the individual income tax, a number of changes would be enacted to Kansas itemized deductions. The deduction for certain gambling losses would be repealed altogether. All other itemized deductions, with the exception of charitable contributions, would be reduced by 25 percent in tax year 2013; 40 percent in tax year 2014; 55 percent in tax year 2015; 70 percent in tax year 2016; and 85 percent in tax year 2017. Beginning in tax year 2018, all Kansas itemized deductions (other than that for charitable contributions) would be repealed. (The deduction for charitable contributions would remain unchanged relative to current law.)

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

A new series of individual income tax rate cuts would be provided beginning in tax year 2013, when the current bottom bracket of 3.0 percent would be reduced to 2.9 percent and the current top bracket of 4.9 percent would be reduced to 4.8 percent. The rates would subsequently be adjusted to 2.8 and 4.6 percent in tax year 2014; 2.7 and 4.5 percent in tax year 2015; 2.6 and 4.4 percent in tax year 2016; 2.5 and 4.0 percent in tax year 2017; and 2.5 and 3.5 percent in tax year 2018 and thereafter.

Additional language in the bill would reinstate an individual income tax credit repealed in 2012 that provides reimbursement under certain circumstances for a portion of the costs associated with modifying a taxpayer's principal residence to make it more accessible to disabled persons. The maximum amount allowed is \$9,000, and the credit is phased out altogether at Kansas adjusted gross income of \$55,000 and above. A second credit providing reimbursement for a portion of the costs borne by individual income

taxpayers making other facilities more accessible to disabled persons also would be reinstated. This credit, which was repealed in 2012 for individual (not corporation) income taxpayers, generally is limited to 50 percent of qualifying expenditures and is capped at \$10,000.

Background

As approved by the House, HB 2084 dealt only with proposed expansion of community service tax credit provisions.

The Senate Assessment and Taxation Committee on March 26 added sales tax exemption provisions for indirect purchases associated with construction, renovation and repair of state properties; and language that would allow retailers to retain a portion of sales and use tax receipts. The Senate Committee of the Whole on May 23 struck all of the provisions in the Senate Assessment and Taxation Committee version of the bill and inserted a number of new tax plan provisions relating to sales and income taxes, many of which had been under discussion in a tax conference committee. A second Senate Committee of the Whole amendment incorporated the provisions of SB 189, relating to restoration of the handicapped accessibility income tax credit (the fiscal note projected decreases in revenue of \$32,000 in FY 2014 and subsequent years). A third Senate Committee of the Whole amendment decelerated the proposed effective date for the lower sales tax rate on certain food from July 1, 2013, to January 1, 2014.

Based on the latest information available from the Department of Revenue, the bill would be expected to have the following impact on SGF receipts:

Disaggregated Details of HB 2084, as amended by SCOW (\$ in millions)

	Sales Tax Provisions			Income Tax Provisions				Total
	SGF	SHF	Net	Item Ded Haircut	St Ded Changes	Rate Cuts	Net	
FY 14	\$ 216.3	\$ 7.1	\$ 223.4	\$ 105.6	\$ 81.7	\$ (115.9)	\$ 71.4	\$ 294.8
FY 15	206.3	0.0	206.3	129.8	85.8	(198.4)	17.2	223.5
FY 16	214.0	0.0	214.0	179.7	90.1	(279.5)	(9.7)	204.3
FY 17	222.1	0.0	222.1	234.2	94.6	(411.2)	(82.4)	139.7
FY 18	230.4	0.0	230.4	293.8	99.3	(662.1)	(269.0)	(38.6)
5 yr-total	\$ 1,089.1	\$ 7.1	\$ 1,096.2	\$ 943.1	\$ 451.5	\$ (1,667.1)	\$ (272.5)	\$ 823.7