



Bruno & Associates

June 19, 2015

The 2015 session was one for the record books. The longest session in history, the largest tax increase in the history of the state, plus a massive budget hole that was the major topic for the entire session.

Both Tax Committee Chairs said they would be happy with a motion to forward a tax bill without recommendation that it be passed, just to get something to the floor for amendment and debate.

Senators failed to advance a tax bill to the Senate floor, and no vote was taken on a bill after an hour of debate in the Senate Tax Committee. The committee sorted through a number of tax proposals. Sen. Jeff Melcher proposed imposing a new excise tax on land, it would impose a \$3 per acre tax on land. Senator Melcher has touted similar proposals this session that would make agriculture industry contribute more to state coffers. Another proposal was introduced to end the sales tax exemption on farm machinery. An effort to remove a sales tax increase from the bill also failed. One of the few proposals that was adopted is the elimination of the repeal of an exemption that shielded the first \$20,000 of a home's value from a statewide school mill levy. However, striking the repeal from the bill eliminated \$43 million of potential revenue.

Additionally, Kansas Department of Revenue officials told the House Tax Committee that the \$4 million shortfall of revenues received in April—from estimates made 10 days earlier by the Consensus Revenue Estimating Group—have come up to that estimate. Basically, it was just \$4 million but Revenue said after opening envelopes last week- after the April 30 release of revenues received in April—the estimate of \$515 million was reached.

Taxes

The legislature approved several different bills to fill the budget hole.

HB 2109, the major tax bill, contained the majority of the provisions. SB 270, which was dubbed the "trailer" bill, made some specific changes to some provisions in HB 2109. Taken together, the bills are expected to raise \$384 million in Fiscal Year 2016, which begins July 1. In FY 2017, the tax bill is predicted to raise approximately \$405 million.

Individual Income Tax Provisions

Low Income Tax Exclusion Provision



Bruno & Associates

A special low-income exclusion provision would become applicable in tax year 2016 that generally would eliminate all positive income tax liability for single filers with taxable income of \$5,000 or less; and for married taxpayers filing jointly with taxable income of \$12,500 or less.

Rate Reduction Formula Modifications

A provision that could provide future formulaic income tax rate relief under certain circumstances, based on the extent to which revenue from a specified group of State General Fund (SGF) tax sources has increased over the previous fiscal year, would be revised by House Sub. for SB 270 to allow for 2.5 percent growth rather than the 3.0 percent growth in SGF receipts as provided by Senate Sub. for HB 2109, as well as allowing for further adjustments based upon growth in the Kansas Public Employees Retirement System spending only. (Senate Sub. for HB 2109 would have allowed for Medicaid growth, as well.) Additionally, current law requires any rate adjustments be rounded down to the nearest 0.1 percent. The revised formula would require rate adjustments be rounded down to the nearest 0.01 percent. The provision would begin taking effect in tax year 2019, as was previously provided for in Senate Sub. for HB 2109.

Itemized Deductions Modification Acceleration

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.

Individual Development Account Tax Credit

The bill would restore, effective for tax year 2015, a tax credit that previously had been available for certain individual development account (IDA) contributions. That credit had been discontinued beginning in tax year 2013, pursuant to repeal in 2012 legislation.

ROZ Program

The Rural Opportunity Zone (ROZ) program, which provides an income tax exemption and the repayment of certain student loans for certain individuals who establish residency in selected counties, would be extended. The program, which is currently scheduled to sunset in tax year 2017, would be extended for five years and be scheduled to sunset in tax year 2022.



Bruno & Associates

Christmas Tree Net Gain

The bill would create a subtraction modification from federal adjusted gross income in calculating Kansas adjusted gross income for the net gain from the sale of Christmas trees.

Social Security Number Requirement

The bill would require an individual claiming a tax credit to have a valid Social Security number for the entire taxable year for which the tax credit is claimed. An exception to this requirement would exist for military spouses in the event that the taxpayers are married filing jointly.

Elimination of the Food Sales Tax Rebate

The bill would repeal a tax credit previously allowed for certain individuals for food sales tax.

Sales Tax Provisions

Sales Tax Rate

House Sub. for SB 270 would set the sales tax rate for all transactions at 6.50 percent on July 1, 2015. Current law is 6.15 percent, which Senate Sub. for HB 2109 had proposed to increase to the rate of 6.55 percent before allowing a future reduction in the rate on food.

Food Sales Tax Rebate Restored

Senate Sub. for HB 2109 proposes the retroactive repeal (to the start of tax year 2015) of the income tax credit allowed for certain individuals to offset the amount of sales tax paid on food. House Sub. for SB 270 would instead repeal that provision of Senate Sub. for HB 2109, effectively restoring the program.

Sales Tax Exemptions and Joint Committee on Tax Exemptions and Income Tax Credits

All sales tax exemptions which are proposed to be sunset under Senate Sub. for HB 2109 would be retained by House Sub. for SB 270. The Joint Committee on Tax Exemptions and Income Tax Credits (Joint Committee) created by Senate Sub. for HB 2109 also would be repealed by House Sub. for SB 270.

Local Sales Tax Provisions



Bruno & Associates

Additional provisions would authorize additional local sales tax authority for three counties—Thomas, Douglas, and Bourbon—for purposes of financing construction or remodeling of a courthouse, jail, law enforcement facility, or other county administrative facility. Thomas County would be granted an additional 0.5 percent authority, Douglas County would be granted an additional 0.5 percent authority, and Bourbon County would be granted additional authority of up to 1.0 percent. Relative to this new authority, all counties also would have an exception to the normal countywide sales tax distribution formula, which otherwise requires that funds be shared with cities. Voter approval would be required prior to the implementation of the new tax authority for Thomas County and Douglas County. For Bourbon County, the result of a previously held election would be declared valid for the implementation of the new tax authority.

Property Tax Provisions

A provision in Senate Sub. for HB 2109 would, beginning in 2018, prohibit cities and counties from adopting, absent mandatory elections, portions of their budgets funded with revenues from certain property tax increases. (That restriction would be relaxed in House Sub. for SB 270.) Beyond those increases allowed at the level of the rate of inflation plus other exemptions provided in Senate Sub. for HB 2109, House Sub. for SB 270 would add a number of other purposes for which property taxes could be increased before the mandatory election requirement would be triggered, including costs associated with new infrastructure; certain property taxes levied for bonds and interest; certain road construction costs; special assessments; costs associated with federal or state mandates; and payment of judgments.

Cigarette Tax Provisions

The bill would increase the state's cigarette tax by \$0.50 per pack to \$1.29 per pack beginning July 1, 2015.

The bill also would establish an inventory tax for all cigarettes on hand as of July 1, 2015. The inventory tax would be \$0.50 per pack for cigarettes on hand as of July 1, 2015. The inventory tax would be due on October 31, 2015.

Electronic Cigarette Taxation

The bill would create a new tax on the privilege of selling or dealing electronic cigarettes at a rate of \$0.20 per milliliter of consumable material and a proportionate tax on all fractional parts thereof.

This new tax would be effective beginning July 1, 2016.

Motor Vehicle Registration and Tax Provisions



Bruno & Associates

The bill would require the Department of Revenue to mail a copy of the motor vehicle registration application to the owner of a motor vehicle, including all information required to enable the owner to register the vehicle and pay the tax by return mail. An additional provision would allow for counties to opt out of the Department of Revenue mailing this information to the owners of vehicles registered in that county.

Other Provisions

Fire Districts

The bill would clarify the property tax levying authority of consolidated fire districts with respect to their authority to levy more than 15 mills. The bill also would remove the 5-mill limit imposed on fire districts.

Tax Credit For Low Income Student Scholarship Program Revisions

The bill would revise the Tax Credit for Low Income Students Scholarship Program Act. Revisions would include:

1. Allowing the scholarship amount to be distributed directly to the school participating in the program;
2. Limiting the amount of money that may be distributed in educational scholarships each school year to \$8,000 per child;
3. Removing a provision that required a student participating in the Program to waive special education services; and
4. Allowing schools that provide education to either elementary or secondary students to participate in the Program.

Land Bank Special Assessment Reamortization

The bill would allow the governing body of any municipality that levied special assessments on property acquired by a land bank to enter into an agreement with the land bank to defer or reamortize all or part of the special assessments.



Bruno & Associates

HB 2281 increases the privilege fee on HMO's in Kansas from the current rate of 1% to 3.31%, retroactively, to January 1, 2015. The Insurance Commissioner, if the Commissioner determines at any time that the application of the privilege fee, or a change in the rate of the privilege fee, would cause a denial of, reduction in or elimination of federal assistance to the state, would be authorized to terminate the operation of such privilege fee, or the change in such privilege fee.

The moneys would be expended for the purpose of Medicaid medical assistance payments and for no other governmental purpose. The moneys would not be subject to allotments by the Governor, certificates of indebtedness, and transfers by the Secretary of Health and Environment. These dollars will supplant State General Fund (SGF) money that goes to Medicaid, freeing up approximately \$48 million of SGF for other purposes.

Budget

House Sub. for SB 112, as agreed to by the Conference Committee, includes funding for claims against the state; FY 2015, FY 2016 and FY 2017 expenditures for most state agencies; and FY 2016 and FY 2017 capital improvements for selected state agencies. The Legislature has already adopted adjustments to the Education budget in Senate Sub. for HB 7 and Judicial Branch budget in HB 2005.

The Education Budget Block Grant bill reduced State General Fund expenditures by \$19.6 million, all from the State General Fund, in FY 2015. The bill increased expenditures from the Governor's recommendation by \$106.8 million, including \$61.1 million from the State General Fund in FY 2016 and increased expenditures by \$129.1 million, including \$83.4 million from the State General Fund, in FY 2017.

The Judicial Branch Budget Bill increased expenditures from the Governor's recommendation by \$6.1 million, all from the State General Fund, for FY 2016 and \$10.8 million, all from the State General Fund, for FY 2017.

Some of the highlights for FY 2016:

- Added, \$26.0 million, all from the State General Fund, to reflect the difference between the Governor's original estimate of savings for bonding \$1.5 billion in KPERS unfunded liability with SB 228, as passed, which bonds \$1.0 billion. The bill, as passed, reduces State General Fund expenditures by \$13.6 million in FY 2016.
- Added \$17.5 million, all from the State General Fund, to ensure the block grant general state aid to school districts remains as estimated in Sen. Sub. for HB 7 for FY16.



Bruno & Associates

- Added \$3.0 million, all from the State General Fund, for the Legislature to procure professional consulting services to assist in a review and evaluation of state government, examining agency core functions, procedures, and efficiencies for FY 2016.
- Added \$750,000, all from the State General Fund, for the Incentive for Technical Education for FY 2016.
- Added language to prohibit executive branch agencies, excluding regents institutions, the Historical Society, and the State Library from making expenditures on newspapers and magazines, including electronic subscriptions, for FY 2016.

The Legislature returns for their ceremonial end, Sine Die, on Friday, June 26th.

LEGISLATIVE DEADLINES

Monday, January 12

First day of 2015 session; convene at 2:00 p.m.

Monday, February 2

Last day for member or members to submit REQUESTS to Revisor's office for bill drafts.

Monday, February 9

Last day for Committees, except House and Senate Federal and State Affairs, Senate Ways and Means, Senate Assessment and Taxation, House committees on Calendar and Printing, Appropriations, Taxation or select committees of either house when so authorized, to submit REQUESTS to Revisor's office for bill drafts.

Wednesday, February 11

Last day for Individuals to INTRODUCE bills in originating chamber.

Friday, February 13

Last day for Committees, except committees listed above, to INTRODUCE bills in originating chamber.

Friday, February 27 (Turnaround Day)

Last day to CONSIDER BILLS IN HOUSE OF ORIGIN, except by House and Senate Federal and State Affairs, Senate Ways and Means, Senate Assessment and Taxation, House committees on Calendar and Printing, Appropriations, Taxation or select committees of either house when so authorized.

Wednesday, March 25

Last day to CONSIDER BILLS NOT IN HOUSE OF ORIGIN, except by committees listed above.

Friday, April 3 (Drop Dead Day)

No bills considered after this date except BILLS VETOED BY GOVERNOR, OMNIBUS APPROPRIATIONS ACT AND OMNIBUS RECONCILIATIONS SPENDING LIMIT BILL.

Veto session is anticipated to begin on Monday, April 27.