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Taxation

K-2 Kansas Income Tax Reform

Beginning in 2012, the Kansas Legislature passed legislation enacting major changes to the Kansas individual income tax. Virtually all areas of the determination of income tax liability were affected by the reforms, including additions and subtractions to adjusted gross income, standard and itemized deductions, tax rates and brackets, tax credits, and tax liability exclusion. Major legislation was passed in 2012, 2013, 2015, and 2017, with additional legislation being passed related to individual income tax reform in 2014.

Addition and Subtraction Modifications

In 2012, legislation specifically exempted certain non-wage business income by providing a modification to federal adjusted gross income that subtracted the taxpayer's income reported on lines 12, 17, and 18 of federal Form 1040. This included business income; income from rents, royalties, partnerships, S corporations, and trusts; and farm income. In addition to this subtraction modification, the legislation included a modification requiring taxpayers to add their losses attributable to those categories back to their federal adjusted gross income in determining their adjusted gross income for Kansas income tax purposes. In 2015, legislation modified the subtraction modification by requiring taxpayers to include "guaranteed payments" in their determination of income.

"Guaranteed payments" is a federally defined term for a specific type of business income. The 2017 Legislature eliminated the addition and subtraction modifications in their entirety, largely returning this area of the Kansas individual income tax to its condition prior to 2012.

Standard Deduction and Itemized Deductions

In 2012, legislation increased the standard deduction for single head-of-household filers from $4,500 to $9,000 and for married taxpayers filing jointly from $6,000 to $9,000. These amounts were reduced to $7,500 for married taxpayers filing jointly and $6,000 for single head-of-household filers by 2013 legislation.

Itemized deductions were unaffected by 2012 legislation, but 2013 legislation eliminated the itemized deduction for certain gambling losses and provided for a series of "haircuts" to all other itemized deductions—excluding charitable contributions—that reduced those deductions by 30.0 percent beginning in tax year 2013 and increasing to 50.0 percent by tax year 2017. In 2015, legislation further reduced itemized deductions by eliminating all itemized deductions other than charitable contributions, mortgage interest, and property taxes beginning in tax year 2015. Mortgage interest and property taxes were reduced to 50.0 percent of their federal amount effective for tax year 2015, and charitable contributions remained at the full federal amount.

In 2017, legislation reinstated the itemized deduction for medical expenses at 50.0 percent of the federal amount beginning in tax year 2018 and increased the amount for medical expenses, property taxes, and mortgage interest to 75.0 percent of the federal level in 2019 and 100.0 percent of the federal level in 2020.

Tax Rates and Brackets

In 2012, legislation collapsed the three-bracket structure for individual income tax Kansas had used since 1992 into a two-bracket system and applied rates of 3.0 and 4.9 percent. Previous rates had been 3.5, 6.25, and 6.45 percent. In 2013, legislation provided a schedule of future rate reductions to lower the rates to 2.3 and 3.9 percent in tax year 2018, and then provided a formula that could—under certain circumstances—provide additional rate reductions in the future based upon year over year growth of specified State General Fund tax receipts. In 2015, legislation altered the rate reduction schedule to provide that the rates would be reduced to 2.6 and 4.6 percent before a modified version of the rate reduction formula would go into effect in tax year 2021.

In 2017, legislation reinstituted a three-bracket individual income tax structure with tax rates set at 2.9, 4.9, and 5.2 percent for tax year 2017 and at 3.1, 5.25, and 5.7 percent for tax year 2018 and all tax years thereafter. The statutory future rate reduction formula was repealed by 2017 legislation.

Income Tax Credits

In 2012, legislation repealed or limited numerous sales tax rebate credit. In 2014, legislation reinstituted tax credits for adoption expenses and disability access expenses. In 2017, legislation reinstituted the child and dependent care tax credit through a three-year phase beginning in tax year 2018.

Low-Income Tax Exclusion

In 2015, legislation created a provision that eliminated any positive income tax liability for single filers with $5,000 or less of taxable income and for married taxpayers filing jointly with $12,500 or less of taxable income beginning in tax year 2016. In 2017, legislation changed the thresholds for this exclusion to $2,500 for single filers and $5,000 for married filers, effective tax year 2018.

Fiscal Information

When fully implemented, tax legislation passed in 2012 and 2013 had the effect of reducing individual income tax receipts, while tax legislation passed in 2015 and 2017 had the effect of increasing individual income tax receipts.

The combined fiscal effect of major tax legislation enacted during those four sessions on individual income tax was a reduction in receipts of $358.1 million for fiscal year 2018.

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