KLRD

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Taxation

K-1 Homestead Program

When Kansas enacted the Homestead Property Tax Refund Act in 1970, it became the sixth state to enact a “circuit-breaker” style of property tax relief.

A “circuit-breaker” is a form of property tax relief in which the benefit is dependent on income or other criteria and the amount of property taxes paid. This moniker developed as an analogy to the device that breaks an electrical circuit during an overload, just as the property tax relief benefit begins to accrue once a person’s property taxes have become overloaded relative to his or her income.

Currently, 34 states, including Kansas, have some form of circuit-breaker program.

In 27 states, excluding Kansas, renters are permitted to participate in the programs.

Eligibility Requirements

- Household income of $34,450 or less; and
- Someone in the household is:
  - Age 55 or above;
  - A dependent under age 18;
  - Blind; or
  - Otherwise disabled.

Renters were eligible (15.0 percent of rent was equivalent to property tax paid) until tax year 2013.

Program Structure

The current Kansas Homestead Refund Program (Program) is an entitlement for eligible taxpayers based upon their household income and their property tax liability. The maximum available refund is $700 and the minimum refund is $30.

Legislative History

A 2006 change to the Program expanded it by approximately $4.5 million. The 2007 Legislature enacted an even more significant expansion of the Program, which increased the size of the Program by an additional $9.9 million.

PROGRAM CLAIMS AND REFUNDS			
	Eligible Claims Filed	**Amount**	**Average Refund**
FY 2011	120,029	$42.860 million	$357
FY 2012	126,762	$43.049 million	$340
FY 2013	115,719	$37.586 million	$325
FY 2014	86,082	$29.415 million	$342
FY 2015	70,343	$23.032 million	$327
FY 2016	76,202	$25.968 million	$341
FY 2017	79,737	$24.649 million	$309
FY 2018	83,155	$24.948 million	$324

Among the key features of the 2007 expansion law:

- The maximum refund available under the Program was increased from $600 to $700;
- 50.0 percent of Social Security benefits were excluded from the definition of “income” for purposes of qualifying for the Program; and
- A residential valuation ceiling prohibits any homeowner with a residence valued at $350,000 or more from participating in the Program.

Hypothetical Taxpayers

The impact of the 2006 and 2007 Program expansion legislation is demonstrated on the following hypothetical taxpayers.

HOMESTEAD REFUND			
	Pre-2006 Law	**2006 Law**	**2007 Law**
Elderly couple with $1,000 in property tax liability and $23,000 in household income, $11,000 of which comes from Social Security benefits.	$72	$150	$385
Single mother with two young children, $750 in property tax liability and $16,000 in household income.	$240	$360	$420
Disabled renter paying $450 per month in rent, with $9,000 of household income from sources other than disability income.	$480	$528	$616

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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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Taxation

K-3 Liquor Taxes

Kansas has three levels of liquor taxation, each of which imposes different rates and provides for a different disposition of revenue.

Liquor gallonage tax. The first level of taxation is the gallonage tax, which is imposed upon the person who first manufactures, sells, purchases, or receives the liquor or cereal malt beverage (CMB).

Liquor enforcement or sales tax. The second level of taxation is the enforcement or sales tax, which is imposed on the gross receipts from the sale of liquor or CMB to consumers by retail liquor dealers and grocery and convenience stores; and to clubs, drinking establishments, and caterers by distributors.

Liquor drink tax. The third level of taxation is levied on the gross receipts from the sale of liquor by clubs, caterers, and drinking establishments.

Gallonage

Since the gallonage tax is imposed upon the person who first manufactures, uses, sells, stores, purchases, or receives the alcoholic liquor or CMB, the tax has already been paid by the time the product has reached the retail liquor store—or in the case of CMB, the grocery or convenience store. (*Note:* Examples of taxation rates are detailed throughout this article.)

When the liquor store owner purchases a case of light wine from a distributor, the 30 cents per gallon tax has already been built in as part of that store owner's acquisition cost.

Rates	
	Per Gallon
Beer and CMB	$0.18
Light Wine	$0.30
Fortified Wine	$0.75
Alcohol and Spirits	$2.50

Gallonage tax receipts in fiscal year (FY) 2018 were approximately $22.5 million. Of this amount, nearly $9.5 million was attributed to the beer and CMB tax.

Gallonage Tax Disposition of Revenue		
	State General Fund (SGF)	**Alcoholism and Intoxication Programs Fund (CAIPF)**
Alcohol and Spirits	90.0%	10.0%
All Other Gallonage Taxes	100.0%	--

Liquor gallonage tax rates have not been increased since 1977.

Enforcement and Sales

Enforcement. Enforcement tax is an in-lieu-of sales tax imposed at the rate of 8.0 percent on the gross receipts of the sale of liquor to consumers and on the gross receipts from the sale of liquor and CMB to clubs, drinking establishments, and caterers by distributors.

- A consumer purchasing a $10 bottle of wine at a liquor store is going to pay 80 cents in enforcement tax.

The club owner buying the case of light wine (who already had paid the 30 cents per gallon gallonage tax as part of his acquisition cost) also now would pay the 8.0 percent enforcement tax.

Sales. CMB purchases in grocery or convenience stores are not subject to the enforcement tax, but rather are subject to state and local sales taxes. The state sales tax rate is 6.5 percent, and combined local sales tax rates range as high as 5.0 percent.

CMB sales, therefore, are taxed at rates ranging from 6.5 to 11.5 percent.

Besides the rate differential between sales of strong beer (and other alcohol) by liquor stores and CMB by grocery and convenience stores, there is a major difference in the disposition of revenue.

Enforcement and Sales Tax Disposition of Revenue			
	SGF	**State Highway Fund**	**Local Units**
Enforcement (8.0%)	100.00%	--	--
State Sales (6.5%)	83.846%	16.154%	--
Local Sales (up to 5.0%)	--	--	100.00%

Enforcement tax receipts in FY 2018 were approximately $73.5 million. Grocery and convenience store sales tax collections from CMB are unknown.

The liquor enforcement tax rate has not been increased since 1983.

Drink

The liquor drink tax is imposed at the rate of 10.0 percent on the gross receipts from the sale of alcoholic liquor by clubs, caterers, and drinking establishments.

The club owner (who had previously paid the gallonage tax and the enforcement tax when acquiring the case of light wine) next is required to charge the drink tax on sales to its customers. Assuming the club charged $4.00 for a glass of light wine, the drink tax on such a transaction would be 40 cents.

Drink Tax – Disposition of Revenue			
	SGF	**CAIPF**	**Local Alcoholic Liquor Fund**
Drink Tax (10.0%)	25.0%	5.0%	70.0%

Liquor drink tax revenues in FY 2018 were about $46.0 million, of which $11.5 million were deposited in the SGF. The liquor drink tax rate has remained unchanged since imposition in 1979.

Taxation of Beer and CMB

Starting on April 1, 2019, CMB licensees may sell beer containing no more than 6.0 percent alcohol by volume; liquor retailers may sell CMB products. For purposes of taxation, CMB products and beer sold at grocery or convenience stores and other CMB licensed establishments will be subject to the state and local sales tax rates. Beer and CMB products sold at liquor stores will continue to be subject to the liquor enforcement tax. Revenues from these taxes will be distributed in accordance with current law.

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Kansas Legislator Briefing Book 2019

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Taxation

K-4 Selected Tax Rate Comparisons

The following tables compare selected tax rates and tax bases with those of nearby states.

Sales Tax			
	Rate	Food	Non-prescription Drugs
Kansas	6.50%	6.50%	Non-exempt
Missouri	4.23%	1.23%	Non-exempt
Nebraska	5.50%	Exempt	Non-exempt
Colorado	2.90%	Exempt	Non-exempt
Iowa	6.00%	Exempt	Non-exempt
Arkansas	6.50%	1.50%	Non-exempt
Texas	6.25%	Exempt	Exempt
Source: Federation of Tax Administrators, as of January 1, 2018.			

Motor Fuel Tax[1] (cents per gallon)		
	Gasoline	Diesel Fuel
Kansas	25.03	27.03
Missouri	17.30	17.30
Nebraska	29.30	28.70
Colorado	22.00	20.50
Iowa	30.50	32.50
Arkansas	21.80	22.80
Texas	20.00	20.00
1 Includes fees, such as environmental and inspection fees.		
Source: Federation of Tax Administrators, as of January 1, 2018.		

Cigarette Tax	
	Excise Tax (cents per pack)
Kansas	129
Missouri	17
Nebraska	64
Oklahoma	103
Colorado	84
Iowa	136
Arkansas	115
Texas	141
Source: Federation of Tax Administrators, as of January 1, 2018.	

Corporate Income Tax				
	Tax Rate	**Number of Brackets**	**Bracket Range**	**Apportionment Method**
Kansas[1]	4.00%	1	Flat Rate	Three Factor
Missouri	6.25%	1	Flat Rate	Three Factor
Nebraska	5.58%-7.81%	2	$100,000	Sales
Oklahoma	6.00%	1	Flat Rate	Three Factor
Colorado	4.63%	1	Flat Rate	Sales
Iowa	6.00%-12.00%	4	$25,000-$250,001	Sales
Arkansas	1.00%-6.50%	6	$3,000-$100,001	Double Weighted Sales
Texas[2]	N/A	N/A	N/A	Sales

1 Kansas levies a 3.0 percent surtax on taxable income over $50,000.
2 Texas imposes a franchise tax on entities with more than $1,110,000 total revenues at a rate of 0.75 percent, or 0.375 percent for entities primarily engaged in retail or wholesale trade, on lesser of 70.0 percent of total revenues or 100.0 percent of gross receipts after deductions for either compensation or cost of goods sold.

Source: Federation of Tax Administrators, as of January 1, 2018.

Individual Income Tax							
	Federal IRC[1] Starting Point	Tax Rate Range	Number of Brackets	Bracket Range	Personal Exemption Single	Personal Exemption Married	Personal Exemption Dependent
Kansas	Adjusted Gross Income	3.10%-5.70%	3	$15,000-$30,000	$2,250	$4,500	$2,250
Missouri	Adjusted Gross Income	1.50%-5.90%	10	$1,028-$9,253	$2,100	$4,200	$1,200
Nebraska	Adjusted Gross Income	2.46%-6.84%	4	$3,150-$30,420	$134 (credit)	$268 (credit)	$134 (credit)
Oklahoma	Adjusted Gross Income	0.50%-5.00%	6	$1,000-$7,200	$1,000	$2,000	$1,000
Colorado	Taxable Income	4.63%	1	Flat Rate	--[2]	--[2]	--[2]
Iowa	Adjusted Gross Income (as defined in IRC effective 1/1/15)	0.36%-8.98%	9	$1,598-$71,910	$40 (credit)	$80 (credit)	$40 (credit)
Arkansas	No Relation to Federal IRC	0.90%-6.90%	6	$4,299-$35,100	$26 (credit)	$52 (credit)	$26 (credit)
Texas	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Internal Revenue Code (IRC)
2 Colorado uses the personal exemption amounts provided in the current version of the IRC. The Tax Cuts and Jobs Act of 2017 set the IRC personal exemption amounts at $0.

Source: Federation of Tax Administrators, as of July 1, 2018.

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