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ALERT: Major Kansas tax changes signed into law, lowering state tax rates for individuals and income from certain businesses

Governor Sam Brownback delivered dramatic tax breaks to individuals and many businesses by signing into law a major revision to the state's tax structure on Tuesday, May 22. **Tax rates on individuals and income for owners of businesses operating as LLCs, partnerships and S corps will drop significantly or be eliminated beginning in tax year 2013.** The tax bill, designed to stimulate the state's economy, has been controversial in the Kansas Legislature because of projections it will cause state budget deficits in future years. Following are the major provisions of HB 2117:

Business income exemption

A number of changes have been made to items affecting Kansas taxable income (KTI). The most significant is that business income (non-wage) from LLCs, partnerships, S corps and sole proprietorships is not subject to state income tax. The elimination of loss carry-forwards will also affect many taxpayers. Major changes in the Kansas adjustments to the federal adjusted gross income (AGI) spurred by the new law are as follows:

Removed from federal income:

- Net profit from business
- Net income from real estate, partnerships, S corps, etc.
- Net farm profit

Added to federal income (to prevent "double-dipping"):

- Loss from business
- Loss from rental real estate, partnerships, S corps, estates, etc.
- Farm loss
- Deduction for self-employment taxes
- Deduction for pension, profit-sharing and annuity plans for self-employed persons
- Deduction for health insurance
- Deduction for domestic production activities

Taxpayers who take advantage of this exclusion of business income would not be eligible to receive other credits such as HPIP and K-34 which are designed to eliminate the tax liability of certain resident individuals.

Rate reduction and restructuring

The income tax rate in Kansas will be compressed from three into two brackets. For married taxpayers filing jointly the rate becomes 3.5% of KTI up to $30,000, and $900 plus 4.9% of KTI above $30,000, compared to the previous top rate of 6.45%. For all others, the tax rate is 3% of KTI up to $15,000, and $450 plus 4.9% of KTI above $15,000.

Standard deduction

Standard deductions rose for married taxpayers filing jointly (from $6,000 to $9,000) and for single heads of household (from $4,500 to $9,000). The single taxpayer standard deduction remains at $3,000.

Sales tax decrease
A state sales tax hike will expire, dropping the state sales tax from 6.3% to 5.7% as of July 1, 2013 (plus whatever local sales taxes are applicable).

Other tax provisions in the new law

- Eliminated: A subtraction modification for certain long-term care insurance expenditures
- Eliminated: Individual income tax deduction for expensing enacted in 2011
- Repealed: Two-year new pool severance tax exemption to all oil production from pools producing more than 50 barrels a day
- Beginning in tax year 2012, renters would no longer be eligible to participate in the Homestead Property Tax Refund program.

This information is provided to you as a courtesy to alert you of opportunities or risks which could apply to your situation. If you have questions about the alert, contact your AGH professional or call AGH senior vice president of state and local tax Jerry Capps at (316) 291-4130 or jerry.capps@aghlc.com.