



SUMMARY OF MAJOR STATE TAX CHANGES IN KANSAS

Overview:

During the 2015 Legislative Session, the Kansas Legislature enacted House Bill 2109 (HB 2109) and Senate Bill 270 (SB 270), which made a number of very significant changes to the laws governing Kansas state income and sales taxes. This summary discusses the following changes:

- Increased sales tax rate on all goods that are subject to the state's sales tax;
- Reduced itemized deduction amounts for nearly all itemized deductions;
- Modified individual income tax rates for 2015, 2016, 2017 and 2018; and
- Imposed state income taxes on certain "guaranteed payments" from business entities to investors.

Increased Sales Tax Rate on All Goods that are Subject to the State's Sales Tax:

Starting on July 1, 2015, the statewide sales tax rate on all goods and services that are subject to the state's sales tax will increase by 0.35% from the current 6.15% to 6.5%. Bear in mind that local option sales taxes and special sales tax jurisdictions typically add an average of 2.0% on top of the statewide sales tax rate, which means that the average combined sales tax rate in Kansas will now be around 8.5%.

Reduced Itemized Deduction Amounts for Nearly All Itemized Deductions:

For tax year 2015 (retroactive to January 1, 2015), the amount of itemized deductions that can be claimed by Kansas taxpayers on their state income tax returns will be reduced. First, the only itemized deductions that can be claimed on a Kansas state income tax return are the charitable contribution, mortgage interest and property tax deductions. All other itemized deductions can no longer be claimed on your state income tax returns.

Second, beginning with tax year 2015, Kansas state income taxpayers can only claim 50% of their mortgage interest and property taxes paid as deductions on their state income tax returns. The charitable contribution deduction can still be claimed in full on your state income tax return. As a result, Kansas state income taxpayers can only claim charitable contributions (100% deductible), mortgage interest (50% deductible) and property taxes paid (50%) as itemized deductions on their state income tax returns.

Modified Individual Income Tax Rates for 2015, 2016, 2017 and 2018:

For all future tax years, the Kansas state individual income tax rates have essentially been frozen at the rates for tax year 2015. Beginning in 2019, a formula will automatically reduce Kansas state individual income tax rates when state tax revenues grow by more than 2.5% over the preceding year (excluding contributions to the state's pension system known as KPERS).

Year	Previous Top Rate -- Joint Files (\$30,000+) and Single Filers (\$15,000+)	New Top Rate	Previous Bottom Rate -- Joint Files (Less than \$30,000) and Single Filers (Less than \$15,000)	New Bottom Rate
2015	4.6%	4.6%	2.7%	2.7%
2016	4.6%	4.6%	2.4%	2.7%
2017	4.6%	4.6%	2.3%	2.7%
2018	3.9%	4.6%	2.3%	2.7%

Imposed State Income Taxes on Certain "Guaranteed Payments" from Business Entities to Investors:

For tax year 2015 (retroactive to January 1, 2015), Kansas state individual income taxes will be imposed on certain "guaranteed payments" from business entities to investors or partners that provide services to the business entity. These payments will be treated as a salary or wage. This will affect a very small number of businesses.

The preceding information is informational in nature and cannot be relied upon as compliance, legal or tax advice. This alert is not a valid substitute for such professional services and advice nor should it be used as a basis for any decision or action that may affect your business. If you would like more information on the impact of the recent tax law changes on your individual and business income taxes, you should contact an attorney, certified public accountant or tax professional.