



BRIGHT AND CARPENTER CONSULTING, INC.

LEGISLATIVE UPDATE



July 2015 Chairman's Article *continued*

Below is a summary of the major features of the tax plan passed on Day 118, which passed in two phases. The first bill, HB 2109, passed the Senate and set the framework for the tax plan while the second bill, SB 270, a trailer bill, passed the House first and addressed the controversial policy changes to reach the final tax compromise.

- Sales tax increase from 6.1% to 6.5% effective July 1, 2015;
- Taxing guaranteed payments for pass through entities retroactive to January 1, 2015;
- Income tax rates freeze at 2.7% for the bottom rate and 4.6% for the top rate until tax year 2018. In 2018, the bottom rate drops to 2.6% and the top rate drops to 4.6%. The rates remain in effect in the future unless changed by a formula that begins in 2019 (certain general fund revenues increase more than 2.5% over the previous year, the formula lowers the income tax rate. KPERS spending is not subject to the formula);
- Acceleration of deduction phase down and repeal of income tax deductions, repealing all deductions except for the mortgage interest deduction which could be claimed at 50% and the charitable deduction which could be claim at 100% retroactive to January 1, 2015;
- The cigarette tax increases by 50 cents a pack;
- Exemption of certain low income Kansans from income tax is included (Joint filers making less than \$12,500 or less would pay nothing);
- The food sales tax rebate program eliminated in 2012 is restored;
- Individual development account tax credits, eliminated in 2012, are resumed
- Freezing the phase down of individual income tax rates for several years with a ratchet down in 2019, 2020 and beyond. The freeze in income tax rates is retroactive to January 1, 2015;
- Tax amnesty for state taxes;
- Requiring SSN for claiming tax credits; and
- Rural Opportunity Zone sunset extension for 5 years.

In addition to the two tax bills above, a separate bill passed that imposes a 3.31% annual privilege tax on health maintenance organizations which applies to the three contractors who manage the care of Medicaid-turned-KanCare and private HMOs. The measure is predicted to raise an additional \$47 million in 2016 to fill the budget gap and lure additional federal Medicaid funding for health care for the state's poor.

While the majority of the FY '16 budget shortfall was addressed by the passage of the above tax measures, there does still remain a roughly \$50 million gap that will be met by line-item budget cuts by the Governor.

Several positive changes came out of the 2015 Legislative Session including unemployment insurance reform, legislation requiring transportation network companies to provide insurance, and a framework for charitable gaming in the state. Divisive issues such as immigration reform and religious liberties did not gain passage this session. Also, several issues remain for next session including a lower sales tax rate on food and workers compensation reform. One issue brewing for future legislatures to address is the urban/rural division and the

tax treatment of agricultural property and land in the state. This division was evident this session and will continue to be a discussion point if revenues continue to be lower than anticipated.

Finally, legislators are awaiting the ruling from a three-judge panel that met on May 7 for hearings on the school finance lawsuit, which now includes the provisions of the K-12 block grant budget bill. The Kansas Supreme Court rejected appeals by the state that it take over from a three-judge panel deliberations on the adequacy of state funding for K-12 education. The attorney general had sought moving the case to the Supreme Court, and that motion was rejected by Supreme Court Chief Justice Lawton Nuss. Legislators believe that the ruling will come down sometime this summer or fall.

Below are key issues that passed during the 2015 Legislative Session. Please let us know if you have any questions or need additional information.

Unemployment Insurance

Unemployment Insurance reform was passed that will include positive changes to Unemployment Insurance rates for businesses in the state. These reforms, sought by the Kansas business community included a cap on the calculation of maximum weekly benefits, a fixed methodology for the assessment of employer contributions, and the administration of the system. The business community believes that the bill will bring more predictability and equity to the system.

Ride Sharing

The Legislature overrode the Governor's Veto of the Ride Sharing bill to ensure that insurance provisions applied to all phases of the transportation network company's ride sharing transactions. The governor vetoed the bill in April, saying that its provisions for regulations, insurance and background checks of its drivers were too complicated to encourage the innovative industry. A trailer bill was passed to relax the background check provisions as well as notification to banks when a ride sharing vehicle has a lien on it.

Public Lobbying

Passage of a bill intended to tighten reporting requirements for publically funded lobbyists requires any government entity or association of governmental entities to file a detailed report with the secretary of state listing the amount of public funds paid to hire or contract for the lobbying services. Governmental entities are defined as the state or municipality.

Local Elections

A bill was approved that moves traditional spring local elections for non-state offices to the fall of odd-numbered years. The measure retains those local office elections as nonpartisan unless local governments designate them as partisan. The measure also eliminates presidential preference primaries in the state and prevents primary-elected party candidates from resigning those candidacies save for moving out of state or health issues.

Guns

Legislation passed that authorizes concealed carry without a license in Kansas. This is also known as the constitutional carry bill. Businesses who do not want guns in their place of business may continue to follow the regulations provided, by placing a sign to not allow guns in the business.

Charitable Gaming

A bill to establish regulations for charitable gaming and allow for fantasy sports passed this session. This bill sets up the framework for charitable gaming in the state after voters approved a Constitutional Amendment last year.