THE NEW TAX LEGISLATION:

WHAT'S IN IT AND HOW IT MIGHT IMPACT YOU

State lawmakers in the 2017 legislative session enacted new tax legislation, in particular making significant changes to income tax laws. Notable provisions of that bill (Senate Bill 30) include:

- Eliminating the exemption for non-wage business income retroactive to January 1, 2017. Often called the "LLC loophole," this exemption was applicable to all non-corporate business formations, including sole proprietorships, partnerships, LLCs and S-corporations. Taxpayers may begin claiming certain non-wage business income losses again in conformity with federal tax code treatment. Because the provision is retroactive, taxpayers making estimated payments will have a grace period to "catch up," with no penalties or interest being assessed for underpayment due to the change, as long as the underpayment is rectified by April 17, 2018.

- Reverting from a 2-bracket system back to a 3-bracket income tax system and phasing up income tax rates retroactive to January 1, 2017. The new rates will remain below where they were before the 2012 tax cuts. The table below, prepared by the Legislative Research Department, outlines income tax brackets/rates under prior law, current law, and the new law:

Individual Income Tax Brackets/Rates, Married Filing Jointly (MFJ)

MFJ Taxable Income	Tax Years (TY) 1992- 2012	Current Law TY2017	New Law TY2017	New Law TY2018 & on
$0-30,000	3.50%	2.70%	2.90%	3.10%
$30,001- $60,000	6.25%	4.60%	4.90%	5.25%
$60,001 & above	6.45%	4.60%	5.20%	5.70%

Because this provision is retroactive to current Tax Year 2017, employers will begin withholding at a higher tax rate on July 1 to phase in the effective new rates over the second half of the year (go to https://www.ksrevenue.org/forms-btwh.html for the new withholding tables.)

- Phasing back in the itemized deduction for medical expenses (currently repealed, it would be allowed at 50% of the federal allowable amount in TY2018, 75% in TY2019, and 100% in TY2020 and thereafter).

- Phasing up the itemized deductions for mortgage interest and property taxes paid (currently both at 50% of the federal allowable amount, they would be allowed at 75% in TY2019, and 100% in TY2020 and thereafter). *Note*: The deduction for charitable contributions has remained at 100%.

- Phasing back in the child and dependent care tax credit (currently repealed, it would be allowed at 12.5% of the federal allowable amount in TY2018, 18.75% in TY2019, and 25% in TY2020 and thereafter, the same level it had been prior to the 2012 repeal.)

- Lowering the "low income exclusion" threshold, below which income tax liability is eliminated, from the current $12,500 to $5,000 for married filers and $5,000 to $2,500 for single filers.

- Repealing the trigger for additional automatic income tax rate reductions, based on a formula tied to annual revenue growth in the State General Fund, commonly known as the "glidepath to zero."

According to the KS Dept of Revenue, these changes would be expected to increase state revenue by a net $591 million in upcoming FY2018, $633 million in FY2019, and $617.4 million in FY2020.

How might the new tax law affect you? The following chart, prepared by the Legislative Research Department, provides examples of how the legislation could impact different taxpayers:

Family of Four	
$100,000 Income	Family would pay $550 more than current law, but would pay just $250 more with the Child Care Tax Credit. Family would pay $620 less than they did in 2012.
(22,000) Standard Deduction	
$78,000 of Taxable Income	
First $30,000 taxed at 3.1%	
Next $30,000 taxed at 5.25%	
Final $18,000 taxed at 5.7%	

Family of Four	
$80,000 Income	Family would pay $350 more than current law, but would pay just $50 more with the Child Care Tax Credit. Family would pay $439 less than they did in 2012.
(16,500) Standard Deduction	
$63,500 of Taxable Income	
First $30,000 taxed at 3.1%	
Next $30,000 taxed at 5.25%	
Final $3,500 taxed at 5.7%	

Family of Four	
$60,000 Income	Family would pay $207.75 more than current law, but would pay just $92.25 less with the Child Care Tax Credit. Family would pay $348.75 less than they did in 2012.
(16,500) Standard Deduction	
$43,500 of Taxable Income	
First $30,000 taxed at 3.1%	
Next $13,500 taxed at 5.25%	

Single Parent, Two Children	
$25,000 Income	Family would pay $43 more than current law, but with the Child Care Tax Credit would pay $290.25 less. Family would pay $148 less than they did in 2012.
(7,500) Standard Deduction	
$17,500 of Taxable Income	
(6,750) Deductions	
$10,750 taxed at 3.1%	

Other legislation (House Bill 2212) makes changes related to business sales and income tax reporting:

- Increasing sales tax reporting thresholds. As of January 1, 2018, the threshold filing amounts for retailers to submit sales taxes to KDOR would increase from $80 to $400 for annual filing, from $3,200 to $4,000 for quarterly filings, from $32,000 to $40,000 for monthly filings, and amounts greater than $40,000 would be filed on a prepaid monthly basis.
- Moving up the filing date when certain withholding income tax reports are due to KDOR from the end of February to the end of January, necessary to bring Kansas into compliance with federal law.

These tax changes will impact many Kansas businesses and families.
This summary is intended for informational purposes only – *please contact your CPA or tax attorney for specific tax and/or legal advice regarding steps you should take as a result of these changes.*
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