OVERLAND PARK
KANSAS
CHAMBER OF COMMERCE

# INCOME TAX ALERT

The 2017 Kansas Legislature passed a bill that makes major changes in the state's income tax law that may be important to you and necessitate some additional or new tax planning. This Alert will provide a brief outline of the changes to our tax law; however, this information is not intended to be, nor should it be considered, legal and/or tax advice. You should consult with your tax attorney or CPA for specific advice as to how these changes impact you and/or your business and what steps you should take as a result of the new law.

## Business Taxpayer Highlights

The law repeals the non-wage pass through business income tax exemption, commonly referred to as the "LLC loophole" (impacting not only LLC's, but also S corporations, partnerships, and sole proprietorships), effective retroactively as of January 1, 2017 (i.e., beginning in tax year 2017).

Beginning in tax year 2017, business taxpayers may also again begin claiming certain non-wage business income losses in conformity with the federal tax code, and certain expenses will no longer have to be added back in when calculating Kansas adjusted gross income (e.g., one-half of the federal self-employment taxes, premiums for self-employed health insurance, retirement contributions for self-employed).

In recognition of the retroactive effective date, as well as the potential complexity of responding to the new provisions, the law also provides a safe harbor for taxpayers in that no penalties or interest from any underpayment of taxes due to these changes will be assessed as long as the underpayment is rectified on or before April 17, 2018 (the deadline for filing 2017 returns).

I will reiterate the importance of seeking advice from your own tax attorney or accountant as to how these changes affect your business and the appropriate way to address them.

## Individual Taxpayer Highlights

The new law also replaces the current two bracket individual income tax schedule (with tax rates of 2.7% and 4.6%) with a three bracket schedule. Because the new brackets and rates take effect retroactively as of January 1, 2017 for the 2017 tax year, employers will begin withholding at the full 2018 tax rates on July 1 to properly phase in the effective new rates over the second half of 2017. The following table shows not only the new rates, but it also includes the old rates replaced by the new law as well as the rates that were in effect prior to the major tax cuts enacted in 2012. The low-income exclusion will be reduced from $5,000 to $2,500 for single filers and from $12,500 to $5,000 for married couples filing jointly.

Individual Income Tax Brackets, Married Filing Jointly

| Taxable Income | Tax Year 1992-2012 | Old Law 2017 | New Law 2017 | Old Law 2018 | New Law 2018 |
|---|---|---|---|---|---|
| $0 - $30,000 | 3.50% | 2.70% | 2.90% | 2.60% | 3.10% |
| $30,001 – $60,000 | 6.25% | 4.60% | 4.90% | 4.60% | 5.25% |
| $60,001 and above | 6.45% | 4.60% | 5.20% | 4.60% | 5.70% |

In addition to the bracket and rate changes, several itemized deductions are being restored as set out below, while deductions for charitable contributions remain at 100%, all based on the allowable federal amounts.

Individual Income Tax – Itemized Deductions

| | 2017 | 2018 | 2019 | 2020+ |
|---|---|---|---|---|
| Medical Expenses | 0% | 50% | 75% | 100% |
| Home Mortgage Interest | 50% | 50% | 75% | 100% |
| Property Taxes | 50% | 50% | 75% | 100% |

The tax credit for child and dependent care expenses, eliminated in the 2012 tax cuts, will be restored over a three year period, 12.5% of the allowable federal amount in 2018, 18.75% in 2019 and 25% in 2020 and beyond.

Attached is an example of how the tax law changes might affect different taxpayers with differing family sizes and incomes as prepared by the Kansas Legislative Research Department.

Once again, I caution you to seek your own advice from a tax professional. We are providing this information solely to make you aware that the Kansas income tax laws have changed and to give you a general overview of the major changes; it not intended nor should it be deemed to be an exhaustive listing of the revisions or to constitute specific tax advice.

| 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% | |