

Sales Tax

2013 HB 2253 – See Notice 13-03
Effective July 1, 2014

Changes to Kansas Sales Tax from new Abortion Laws

- **Prescription Drugs**
No exemption for any sales of drugs used in the performance or induction of an abortion.
- **Educational Material purchased for free public distribution**
No exemption for any sales of educational material to non-profit corporation which performs any abortion.
- **Annual Events sponsored by 501(c)(3)**
No exemption for any sales of tangible personal property by non profit organization which performs abortions.
- **Primary Health Care Clinic or Health Center**
No exemption for any sales of tangible personal property and services purchased by a contractor for the purpose of constructing equipping, reconstructing, maintaining, repairing, enlarging, furnishing or remodeling a primary health care clinic or health center which performs any abortions.

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2013 HB 2253 Sec. 11 K.S.A. 2012 Supp. 40-2246 is hereby amended to read as follows: 40-2246. (a) A credit against the taxes otherwise due under the Kansas income tax act shall be allowed to an employer for amounts paid during the taxable year for purposes of this act on behalf of an eligible employee as defined in K.S.A. 40-2239, and amendments thereto, to provide health insurance or care and amounts contributed to health savings accounts of eligible covered employees, *except that for taxable years commencing after December 31, 2013, no credit shall be allowed pursuant to this section for that portion of any amounts paid by an employer for healthcare expenditures, a health benefit plan, as defined in section 1, and amendments thereto, or amounts contributed to health savings accounts for the purchase of an optional rider for coverage of abortion in accordance with K.S.A. 40-2,190, and amendments thereto.*

Sec. 17. K.S.A. 2012 Supp. 79-32,117 is hereby amended to read as follows: 79-32,117. (a) The Kansas adjusted gross income of an individual means such individual's federal adjusted gross income for the taxable year, with the modifications specified in this section. (b) There shall be added to federal adjusted gross income: (i) Interest income less any related expenses directly incurred in the purchase of state or political subdivision obligations, to the extent that the same is not included in federal adjusted gross income, on obligations of any state or political subdivision thereof, but to the extent that interest income on obligations of this state or a political subdivision thereof issued prior to January 1, 1988, is specifically exempt from income tax under the laws of this state authorizing the issuance of such obligations, it shall be excluded from computation of Kansas adjusted gross income whether or not included in federal adjusted gross income. Interest income on obligations of this state or a political subdivision thereof issued after December 31, 1987, shall be excluded from computation of Kansas adjusted gross income whether or not included in federal adjusted gross income. (ii) Taxes on or measured by income or fees or payments in lieu of income taxes imposed by this state or any other taxing jurisdiction to the extent deductible in determining federal adjusted gross income and not credited against federal income tax. This paragraph shall not apply to taxes imposed under the provisions of K.S.A. 79-1107 or 79-1108, and amendments thereto, for privilege tax year 1995, and all such years thereafter. (iii) The federal net operating loss deduction. (iv) Federal income tax refunds received by the taxpayer if the deduction of the taxes being refunded resulted in a tax benefit for Kansas income tax purposes during a prior taxable year. Such refunds shall be included in income in the year actually received regardless of the method of accounting used by the taxpayer. For purposes hereof, a tax benefit shall be deemed to have resulted if the amount of the tax had been deducted in determining income subject to a Kansas income tax for a prior year regardless of the rate of taxation applied in such prior year to the Kansas taxable income, but only that portion of the refund shall be included as bears the same proportion to the total refund received as the federal taxes deducted in the year to which such refund is attributable bears to the total federal income taxes paid for such year. For purposes of the foregoing sentence, federal taxes shall be considered to have been deducted only to the extent such deduction does not reduce Kansas taxable income below zero. (v) The amount of any depreciation deduction or business expense deduction claimed on the taxpayer's federal income tax return for any capital expenditure in making any building or facility accessible to the handicapped, for which expenditure the taxpayer claimed the credit allowed by K.S.A. 79-32,177, and amendments thereto. (vi) Any amount of designated employee contributions picked up by an employer pursuant to K.S.A. 12-5005, 20-2603, 74-4919 and 74-4965, and amendments thereto.

.(xxiv) For taxable years commencing after December 31, 2013, that portion of the amount of any expenditure deduction claimed in determining federal adjusted gross income for expenses paid for medical care of the taxpayer or the taxpayer's spouse or dependents when such expenses were paid or incurred for an abortion, or for a health benefit plan, as defined in section 1, and amendments thereto, for the purchase of an optional rider for coverage of abortion in accordance with K.S.A. 2012 Supp. 40-2,190, and amendments thereto, to the extent that such taxes and assessments are claimed as an itemized deduction for federal income tax purposes. (xxv) For taxable years commencing after December 31, 2013, that portion of the amount of any expenditure deduction claimed in determining federal adjusted gross income for expenses paid by a taxpayer for health care when such expenses were paid or incurred for abortion coverage, a health benefit plan, as defined in section 1, and amendments thereto, when such expenses were paid or incurred for abortion coverage or amounts contributed to health savings accounts for such taxpayer's employees for the purchase of an optional rider for coverage of abortion in accordance with K.S.A. 2012 Supp. 40-2,190, and amendments thereto, to the extent that such taxes and assessments are claimed as a deduction for federal income tax purposes. Section 18 (iv) For taxable years commencing December 31, 2013, that portion of the amount of any expenditure deduction claimed in determining federal adjusted gross income for expenses paid by a taxpayer for health care when such expenses were paid or incurred for abortion coverage, a health benefit plan, as defined in section 1, and amendments thereto, when such expenses were paid or incurred for abortion coverage or amounts contributed to health savings accounts for such taxpayer's employees for the purchase of an optional rider for coverage of abortion in accordance with K.S.A. 2012 Supp. 40-2,190, and amendments thereto. House Bill No. 2253 Section 19(c) As used in this section, the term "expenditures in research and development activities" means expenditures made for such purposes, other than expenditures of moneys made available to the taxpayer pursuant to federal or state law, which are treated as expenses allowable for deduction under the provisions of the federal internal revenue code of 1986, and amendments thereto as amended, except that for taxable years commencing after December 31, 2013, expenditures in research and development activities shall not include any expenditures for the performance of any abortion, as defined in K.S.A. 65-6701, and amendments thereto.

House Bill No. 2253 Section 20 (f) "Health care services" shall include, but not be limited to, the following: Services provided by local health departments, city, county or district hospitals, city or county nursing homes, or other residential institutions, preventive health care services offered by a community service organization including immunizations, prenatal care, the postponement of entry into nursing homes by home health care services, and community based services for persons with a disability, mental health services, indigent health care, physician or health care worker recruitment, health education, emergency medical services, services provided by rural health clinics, integration of health care services, home health services and services provided by rural health networks, *except that for taxable years commencing after December 31, 2013, health care services shall not include any service involving the performance of any abortion, as defined in K.S.A. 65-6701, and amendments thereto.*

Sales Tax

2014 SB 265 – See Notice 14-13
Effective July 1, 2014

NEW Project Exemption Certificate (PEC)

- **Certain Agriculture industries may now obtain a PEC.**

Exempts tangible personal property or services for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling one of the following businesses:

- * Poultry and Egg Production
- * Sheep and Goat Farming
- * Cattle Feedlots
- * Dairy Cattle and Milk Production
- * Hog and Pig Farming

- Exempt purchases for business and contractor include purchases for **Materials**, **Machinery**, and **Equipment**, that are incorporated into the project. Also the **Labor** to install these materials, machinery and equipment is exempt.

- Does Not apply to projects with actual cost less than **\$50,000**.

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2014 SB 265 Sect. 8 (hhhh) *all sales of tangible personal property or services purchased on or after July 1, 2014, for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a business identified under the North American industry classification system (NAICS) subsectors 1123, 1124, 112112, 112120 or 112210, and the sale and installation of machinery and equipment purchased for installation at any such business. The exemption provided in this subsection shall not apply to projects that have actual total costs less than \$50,000. When a person contracts for the construction, reconstruction, enlargement or remodeling of any such business, such person shall obtain from the state and furnish to the contractor an exemption certificate for the project involved, and the contractor may purchase materials, machinery and equipment for incorporation in such project. The contractor shall furnish the number of such certificates to all suppliers from whom such purchases are made, and such suppliers shall execute invoices covering the same bearing the number of such certificate. Upon completion of the project, the contractor shall furnish to the owner of the business a sworn statement, on a form to be provided by the director of taxation, that all purchases so made were entitled to exemption under this subsection. All invoices shall be held by the contractor for a period of five years and shall be subject to audit by the director of taxation. Any contractor or any agent, employee or subcontractor of the contractor, who shall use or otherwise dispose of any materials, machinery or equipment purchased under such a certificate for any purpose other than that for which such a certificate is issued without the payment of the sales or compensating tax otherwise imposed thereon, shall be guilty of a misdemeanor and, upon conviction therefor, shall be subject to the penalties provided for in subsection (g) of K.S.A. 79-3615, and amendments thereto.*

Sales Tax

2014 HB 2378 – See Notice 14-16
Effective July 1, 2014

Sales Tax Exemption for Surface Mining

- “Integrated plant” sales tax exemption now includes all equipment used in surface mining.
- The exemption will be claimed on the revised Integrated Production Machinery and Equipment Exemption Certificate, ST-201. The form is available on the Kansas Department of Revenue website.

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2014 HB 2378 (4) The following machinery, equipment and materials shall be deemed to be exempt even though it may not otherwise qualify as machinery and equipment used as an integral or essential part of an integrated production operation: (A) Computers and related peripheral equipment that are utilized by a manufacturing or processing business for engineering of the finished product or for research and development or product design; (B) machinery and equipment that is utilized by a manufacturing or processing business to manufacture or rebuild tangible personal property that is used in manufacturing or processing operations, including tools, dies, molds, forms and other parts of qualifying machinery and equipment; (C) portable plants for aggregate concrete, bulk cement and asphalt including cement mixing drums to be attached to a motor vehicle; (D) industrial fixtures, devices, support facilities and special foundations necessary for manufacturing and production operations, and materials and other tangible personal property sold for the purpose of fabricating such fixtures, devices, facilities and foundations. An exemption certificate for such purchases shall be signed by the manufacturer or processor. If the fabricator purchases such material, the fabricator shall also sign the exemption certificate; and (E) a manufacturing or processing business' laboratory equipment that is not located at the plant or facility, but that would otherwise qualify for exemption under subsection (3)(E); **and (F) all machinery and equipment used in surface mining activities as described in K.S.A. 49-601 et seq., and amendments thereto, beginning from the time a reclamation plan is filed to the acceptance of the completed final site reclamation.**

Sales Tax

2014 SB 266
Effective July 1, 2014

New Sales Tax Exemptions

- 3 new sales tax exemptions added to K.S.A. 79-3606:
 - Wichita Children's Home (including PEC)
 - Beacon, Inc.
 - Reaching Out from Within, Inc.

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2014 Senate Bill 266

K.S.A. 2013 Supp. 79-3606, as amended by section 8 of 2014 Senate Bill No. 265, is hereby amended to read as follows:

Section 6

(iii) all sales of tangible personal property or services purchased by a contractor for the purpose of constructing, maintaining, repairing, enlarging, furnishing or remodeling facilities for the operation of services for Wichita children's home for any such purpose which would be exempt from taxation under the provisions of this section if purchased directly by Wichita children's home. Nothing in this subsection shall be deemed to exempt the purchase of any construction machinery, equipment or tools used in the constructing, maintaining, repairing, enlarging, furnishing or remodeling such facilities for Wichita children's home. When Wichita children's home contracts for the purpose of constructing, maintaining, repairing, enlarging, furnishing or remodeling such facilities, it shall obtain from the state and furnish to the contractor an exemption certificate for the project involved, and the contractor may purchase materials for incorporation in such project. The contractor shall furnish the number of such certificate to all suppliers from whom such purchases are made, and such suppliers shall execute invoices covering the same bearing the num-

ber of such certificate. Upon completion of the project, the contractor shall furnish to Wichita children's home a sworn statement, on a form to be provided by the director of taxation, that all purchases so made were entitled to exemption under this subsection. All invoices shall be held by the contractor for a period of five years and shall be subject to audit by he director of taxation. If any materials purchased under such a certificate are found not to have been incorporated in the building or other project or not to have been returned for credit or the sales or compensating

tax otherwise imposed upon such materials which will not be so incorporated in the building or other project reported and paid by such contractor to the director of taxation not later than the 20th day of the month following the close of the month in which it shall be determined that such materials will not be used for the purpose for which such certificate was issued, Wichita children's home shall be liable for the tax on all materials purchased for the project, and upon payment, it may recover the same from the contractor together with reasonable attorney fees. Any contractor or any agent, employee or subcontractor, who shall use or otherwise dispose of any materials purchased under such a certificate for any purpose other than that for which such a certificate is issued without the payment of the sales or compensating tax otherwise

Sales Tax

2014 SB 266
Effective July 1, 2014

New Sales Tax Exemptions Cont.

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imposed upon such materials, shall be guilty of a misdemeanor and, upon conviction, shall be subject to the penalties provided for in subsection (h) of K.S.A. 79-3615, (jjjj) all sales of tangible personal property or services purchased by or on behalf of the beacon, inc., which is exempt from federal income taxation pursuant to section 501(c)(3) of the federal internal revenue code, for the purpose of providing those desiring help with food, shelter, clothing and other necessities of life during times of special need; and (kkkk) all sales of tangible personal property and services purchased by or on behalf of reaching out from within, inc., which is exempt from federal income taxation pursuant to section 501(c)(3) of the federal internal revenue code, for the purpose of sponsoring self-help programs for incarcerated persons that will enable such incarcerated persons to become role models for non-violence while in correctional facilities and productive family members and citizens upon return to the community.

Mineral Severance Tax

2014 SB 266 – See Notice 14-12
Effective July 1, 2014

Change to Mineral Severance Tax Return Due Date

- Prior to enactment of this bill, the mineral severance tax return was due by the end of the first month following production, and the tax remittance was due on the 20th day of the second month following production.
- Effective July 1, 2014 both **return** and **remittance** will be due on the 20th day of the second month following production.

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2014 Senate Bill 266

Sec. 8. K.S.A. 79-4221 is hereby amended to read as follows: 79-4221. (a) Every purchaser or operator responsible for remitting the tax imposed under the provisions of K.S.A. 79-4217, and amendments thereto, on or before the last day of the first month following the end of every calendar month in which oil or gas is removed from the lease or production unit, shall make A return *shall be made* to the director upon forms prescribed and furnished by the director, *on or before the 20th day of the second month following the end of every calendar month in which oil, gas or coal is removed from a lease or production unit or mine.* (1) *If the oil, gas or coal is sold to a purchaser, every purchaser or operator responsible for remitting the tax imposed under the provisions of K.S.A. 79-4217, and amendments thereto, shall make the return showing the gross quantity of oil or, gas or coal purchased during the month for which the return is filed, the price paid therefor, the correct name and address of the operator or other person from whom the same was purchased, a full description of the property in the manner prescribed by the director from which such oil or, gas or coal was severed and the amount of tax due on or before the 20th day of the following month. In the case of coal the return shall be made on or before the 20th day of the second month following the end of the calendar month in which the coal is removed from the mine, and such return shall be accompanied by a remittance of the full amount of the tax due. For the purposes of determining the amount of tax to be remitted, such purchaser or operator shall compute the full amount of the tax due under K.S.A. 79-4217, and amendments thereto, upon all coal, oil or gas severed and removed from the lease or production unit or mine during such month and shall deduct an amount equal to the full amount of the tax credit allowed pursuant to K.S.A. 79-4219, and amendments thereto.* (b)(2) *If oil or, gas or coal is removed from the lease or production unit but not sold to a purchaser, or if the operator elects to remit the tax as authorized under K.S.A. 79-4220, and amendments thereto, or if the operator is required to remit the tax pursuant to K.S.A. 79-4220, and amendments thereto, the operator shall on or before the last day of the first month following the end of every calendar month in which oil or gas is removed from the lease or production unit make a the return to the director upon forms prescribed and furnished by the director showing the gross quantity of oil or, gas or coal removed during such month for which the return is filed and a full description of the property in the manner prescribed by the director from which the same was severed. In the case of coal the return shall be made on or before the 20th day of the second month following the end of the calendar month in which the coal is removed from the mine. If the coal, oil or gas has not been sold by the time prescribed by K.S.A. 79-4220, and amendments thereto, for the payment of the tax, the operator shall remit the full amount of the tax due upon certification of the amount thereof by the director. The amount of taxes to be remitted shall be determined in the same manner prescribed for remittances by purchasers or operators under subsection (a) of this section.* (c)(b) *Each monthly return required hereunder shall be filed on separate forms as to product and county and lease, production unit or mine. All such monthly returns shall be signed by the purchaser or operator, as the case may be, or a duly authorized agent thereof.* (d) *The director may grant a reasonable extension of time for filing any return and remittance of taxes due under this act upon good cause shown*

Mineral Severance Tax

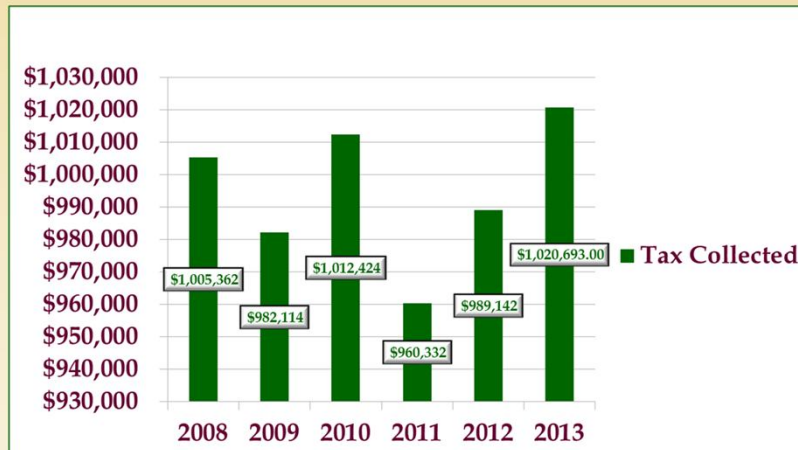
Change to Mineral Severance Tax Return Due Date Cont.

SB 266 See Notice 14-12

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therefor. Interest shall be charged at the rate prescribed by subsection (a) of K.S.A. 79-2968, and amendments thereto, for the period of such extension for the remittance of taxes. (e)(c) The reporting requirements of this section shall be applicable to the severance and production in this state of all gas which is metered and all coal and oil regardless of whether the severance and production thereof is subject to or exempt from the tax imposed by K.S.A. 79-4217, and amendments thereto. (d) *A penalty for late filing a return shall be imposed in accordance with K.S.A. 79-4225, and amendments thereto.*

Compensating Use Tax – Local and State As reported on the Kansas Individual Income tax form (K-40)



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79-3703. Compensating use tax imposed; rate. There is hereby levied and here shall be collected from every person in this state a tax or excise for the privilege of using, storing, or consuming within this state any article of tangible personal property. Such tax shall be levied and collected in an amount equal to the consideration paid by the taxpayer multiplied by the rate of 6.15%. Within a redevelopment district established pursuant to K.S.A. 74-8921, and amendments thereto, there is hereby levied and there shall be collected and paid an additional tax of 2% until the earlier of: (1) The date the bonds issued to finance or refinance the redevelopment project undertaken in the district have been paid in full; or (2) the final scheduled maturity of the first series of bonds issued to finance the redevelopment project. All property purchased or leased within or without this state and subsequently used, stored or consumed in this state shall be subject to the compensating tax if the same property or transaction would have been subject to the Kansas retailers' sales tax had the transaction been wholly within this state. Kansas Compensating Use Tax was added to the K-40 (line 18) in 2004. Kansas imposes a use tax on goods purchased by Kansans (individuals and businesses) from Outside Kansas and that are used, stored, or consumed in Kansas on which;

- No sales tax was paid
- or
- A sales tax less than the Kansas rate was paid.

The purpose of compensating use tax is to protect Kansas businesses from unfair competition from out-of-state retailers who sell goods tax-free; use tax “compensates” for the lack of sales tax paid at the time of purchase. A use tax also helps to assure fairness to Kansans who purchase similar items in Kansas and pay Kansas sales tax on them. This is not a new concept. Compensating use tax in Kansas has been in effect since 1937.

Changes to COTA

2014 SB 231

Effective July 1, 2014

- Name Change for State Court of Tax Appeals (COTA), will now be the State Board of Tax Appeals (BOTA).
- Many changes in the power, duties, and functions affect appeals for property tax valuation and how property may be valued for taxation purposes.
- Lowers the interest rate on delinquent property taxes.
- De Novo review to district court from final orders of BOTA entered after June 30, 2014.

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2014 SB 231 Sec. 1 K.S.A. 2013 Supp. 74-2426 is hereby amended to read as follows: 74-2426. (a) Orders of the state court board of tax appeals on any appeal, in any proceeding under the tax protest, tax grievance or tax exemption statutes or in any other original proceeding before the court board shall be rendered and served in accordance with the provisions of the Kansas administrative procedure act. Notwithstanding the provisions of subsection (g) of K.S.A. 77-526, and amendments thereto, a final order of the court shall be rendered in writing and served within 120 days a written summary decision shall be rendered by the board and served within 14 days after the matter was fully submitted to the court board unless this period is waived or extended with the written consent of all parties or for good cause shown. Any aggrieved party, within 14 days of receiving the board's decision, may request a full and complete opinion be issued by the board in which the board explains its decision. This full opinion shall be served by the board within 90 days of being requested. If the board has not rendered a summary decision or a full and complete opinion within the time periods described in this subsection, and such period has not been waived by the parties nor can the board show good cause for the delay, then the board shall refund any filing fees paid by the taxpayer. (b) No final order Final orders of the court board shall be subject to review pursuant to subsection (c) unless the except that the aggrieved party may first files file a petition for reconsideration of that order with the court board in accordance with the provisions of K.S.A. 77-529, and amendments thereto. (c) Any action of the court board pursuant to this section is subject to review in accordance with the Kansas judicial review act, except that: (1) The parties to the action for judicial review shall be the same parties as appeared before the court board in the administrative proceedings before the court board. The court board shall not be a party to any action for judicial review of an action of the court board. (2) There is no right to review of any order issued by the court board in a no-fund warrant proceeding pursuant to K.S.A. 12-110a, 12-1662 et seq., 19-2752a, 79-2938, 79-2939 and 79-2951, and amendments thereto, and statutes of a similar character. The court of appeals has jurisdiction for review of all final orders issued after June 30, 2008, in all other cases. (3) In addition to the cost of the preparation of the transcript, the appellant shall pay to the state court board of tax appeals the other costs of certifying the record to the reviewing court. Such payment shall be made prior to the transmission of the agency record to the reviewing court. (4) (A) Any aggrieved person has the right to appeal any final order of the board issued after June 30, 2014, by filing a petition with the court of appeals or the district court. Any appeal to the district court shall be a trial de novo. (B) Review of orders issued by the board of tax appeals relating to the valuation or assessment of property for ad valorem tax purposes or relating to the tax protest for which the appellant chooses to be reviewed in district court, shall be conducted by the district court of the county in which the property is located or, if located in more than one county, the district court of any county in which any portion of the property is located. (d) If review of an order of the state court board of tax appeals to the court of appeals relating to excise, income or estate taxes, is sought by a person other than the director of taxation, such person shall give bond for costs at the time the petition is filed. The bond shall be in the amount of 125% of the amount of taxes assessed or a lesser amount approved by the court of appeals and shall be conditioned on the petitioner's prosecution of the review without delay and payment of all costs assessed against the petitioner.

Sales Tax

Sales & Use Tax Entity Exemption Certificate Renewal

Current Certificate These are expiring but can be honored through the expiration date on the certificate.	New Certificate These are being issued starting June 1, 2014 and will expire October 1, 2020
<p>Kansas Department of Revenue Sales and Use Tax Exemption Certificate</p> <p>The Kansas Department of Revenue certifies that entity is exempt from paying Kansas sales and use tax on purchases for use as stated herein.</p> <p>Kansas Exemption Number: KSMAPLE99 Expiration Date: 11/01/2014</p> <p>The exempt entity certifies and agrees that if the exempt purchase property will be used for the state and local sales and use tax purposes that it is not exempt from that tax, the exempt entity is liable for the state and local sales and use tax. This certificate is conditioned on use of the certificate in exempt purchases, prohibited by the state and local government.</p> <p>Exempt Entity 100 Main PO Box 99 Anytown KS 66666</p> <p>EXEMPT ENTITY INFORMATION: Agriculture and food U.S.A. to include all types of Kansas, political subdivisions of the state of Kansas (Kansas cities, counties, townships, special districts), nonprofit hospitals, and health, dental, or vision centers. Exemptions apply to all exempt purchases made in exempt purchases of property and services, except purchases of goods for resale, purchases of a purchase made for any business activity specifically stated, and exempt purchases for a contractor for a real property project except as noted below. Exemptions: • Only direct purchases are exempt through the use of this certificate. • Exemptions for the exempt entity apply to the purchase of goods for a contractor through the issuance of a Request for Proposal (RFP) or Request for Quote (RFQ) or other similar contract. Exemptions do not apply to a contractor's purchase of goods for resale. • Exemptions do not apply to the purchase of any construction materials, equipment or services used in the construction, remodeling, repairing, reworking, reworking or remodeling activities for the exempt entity. • Exemptions do not apply to the purchase of goods used for resale, including, but not limited to, goods used in the construction, remodeling, repairing, reworking or remodeling activities for the exempt entity. • All purchases of goods and services made in accordance with this certificate are specifically exempt by the Sales Tax Act and are subject to tax. This includes operation of a vehicle, maintenance, and selling of goods or services as noted.</p> <p>Exempt Entity Authorized Signatory (Signature of Manager or Administrator) _____ Federal ID Number _____ Print Name _____ Date _____</p> <p>RETAILER INFORMATION: • To qualify for exemption, the certificate must have an expiration date in the future and be signed by an authorized individual. • Purchases made by the exempt entity are exempt from sales and use tax on the date of purchase. Acquisition of such, personal, durable, or semi-durable goods or services is not exempt from sales and use tax on the date of purchase. • The exempt entity must be a Kansas exemption number. Exemption certificates issued by other states are not valid in Kansas. • Exemptions are required to maintain a copy of the purchaser's certificate in their records for at least 7 years from the date of purchase. Penalties may be assessed for failure to do so. • Exemptions are required to maintain a copy of the purchaser's certificate in their records for at least 7 years from the date of purchase. Penalties may be assessed for failure to do so. • A completed certificate may be used as a receipt for the exempt purchase. This is the same type and for the same exempt purpose.</p> <p>Seller's Name and Address _____ Description of goods sold or services purchased _____</p> <p>For additional information on Kansas sales and use tax see Publications KS-1511, Kansas Sales Tax and Compensating Tax and Publications KS-1512, Kansas Exemption Certificates, located at www.ksrevenue.org. Questions should be directed to Taxpayer Assistance at 1-800-822-2222.</p>	<p>Kansas Department of Revenue Sales and Use Tax Exemption Certificate</p> <p>The Kansas Department of Revenue certifies that entity is exempt from paying Kansas sales and use tax on purchases for use as stated herein.</p> <p>Kansas Exemption Number: KSMAPLE99 Expiration Date: 10/01/2020</p> <p>The exempt entity certifies and agrees that if the exempt purchase property will be used for the state and local sales and use tax purposes that it is not exempt from that tax, the exempt entity is liable for the state and local sales and use tax. This certificate is conditioned on use of the certificate in exempt purchases, prohibited by the state and local government.</p> <p>Exempt Entity 100 Main PO Box 99 Anytown KS 66666</p> <p>EXEMPT ENTITY INFORMATION: Agriculture and food U.S.A. to include all types of Kansas, political subdivisions of the state of Kansas (Kansas cities, counties, townships, special districts), nonprofit hospitals, and health, dental, or vision centers. Exemptions apply to all exempt purchases made in exempt purchases of property and services, except purchases made for any business activity specifically stated and indirect purchases by a contractor for a real property project except as noted below. Exemptions: • Only direct purchases are exempt through the use of this certificate. • Exemptions for the exempt entity apply to the purchase of goods for a contractor through the issuance of a Request for Proposal (RFP) or Request for Quote (RFQ) or other similar contract. Exemptions do not apply to a contractor's purchase of goods for resale. • Exemptions do not apply to the purchase of any construction materials, equipment or services used in the construction, remodeling, repairing, reworking, reworking or remodeling activities for the exempt entity. • Exemptions do not apply to the purchase of goods used for resale, including, but not limited to, goods used in the construction, remodeling, repairing, reworking or remodeling activities for the exempt entity. • All purchases of goods and services made in accordance with this certificate are specifically exempt by the Sales Tax Act and are subject to tax. This includes operation of a vehicle, maintenance, and selling of goods or services as noted.</p> <p>Exempt Entity Authorized Signatory (Signature of Manager or Administrator) _____ Federal ID Number _____ Print Name _____ Date _____</p> <p>RETAILER INFORMATION: • To qualify for exemption, the certificate must have an expiration date in the future and be signed by an authorized individual. • Purchases made by the exempt entity are exempt from sales and use tax on the date of purchase. Acquisition of such, personal, durable, or semi-durable goods or services is not exempt from sales and use tax on the date of purchase. • The exempt entity must be a Kansas exemption number. Exemption certificates issued by other states are not valid in Kansas. • Exemptions are required to maintain a copy of the purchaser's certificate in their records for at least 7 years from the date of purchase. Penalties may be assessed for failure to do so. • Exemptions are required to maintain a copy of the purchaser's certificate in their records for at least 7 years from the date of purchase. Penalties may be assessed for failure to do so. • A completed certificate may be used as a receipt for the exempt purchase. This is the same type and for the same exempt purpose.</p> <p>Seller's Name and Address _____ Description of goods sold or services purchased _____</p> <p>For additional information on Kansas sales and use tax see Publications KS-1511, Kansas Sales Tax and Compensating Tax and Publications KS-1512, Kansas Exemption Certificates, located at www.ksrevenue.org. Questions should be directed to Taxpayer Assistance at 1-800-822-2222.</p>

NEW KANSAS TAX-EXEMPT ENTITY EXEMPTION CERTIFICATES TO BE ISSUED

June 2014

In 2004, the Legislature required the Department of Revenue to issue tax entity exemption certificates to qualified organizations including schools, governments, hospitals and certain qualified nonprofit organizations. The certificate includes a unique Kansas exemption number, the name and address of the exempt entity, the certificate expiration date and a general description of what purchases are exempt. The current exemption certificates expire on November 1, 2014 and require renewal. The new certificates have an expiration date of October 1, 2020.

As part of the process to renew the exemption certificates the department has revised the certificate to assist you in identifying the old vs. new format. An example of the current and new certificate is on the second page of this notice. The new certificate will be available to tax exempt entities beginning in June 2014. The renewal application is located on our web site, www.ksrevenue.org. Throughout the summer, the department will be issuing notices to the entities on how to renew the certificate.

You can continue to honor the current exemption certificate **as long as the expiration date has not passed**. You must request a copy of the new certificate from your clients as they make purchases. The entities have been told to provide retailers with a copy of their new certificate. If your business provides exempt entities with your own exemption card as part of your internal exemption process, you must update your systems to ensure you are only allowing tax exempt entities who are issued an exemption by the department to purchase tax exempt. **Please note the exemption number has not changed.**

Exemption certificates used for agricultural purchases, purchases of resale, for manufacturing and processing, consumed in production, and purchases by the federal government are not affected by the renewal of the tax entity exemption certificates. As a reminder, if you question the validity of a tax entity exemption certificate, you can verify the certificate through a verification process on our web site. Click on exemption certificates under 'Business Tax' to access the verification application.

For additional information on Kansas sales and use exemptions see Publication KS-1520, *Kansas Exemption Certificates*, located on our website, www.ksrevenue.org. For specific questions on this notice or on exemption certificates contact (785) 368-8222.

Sales Tax

The screenshot shows the Kansas Department of Revenue website. At the top, there is a navigation menu with links for Home, Personal Tax, Business Tax, Vehicles, E-services, and Forms. Below the navigation is a banner for the 2014 Kansas Individual and/or Food Sales Tax. The main content area is divided into sections for Personal Tax, Business Tax, and Vehicles. A search bar is located on the right side of the page. A red callout box with a starburst shape points to a link in the 'Popular Items' section of the right sidebar. The link is 'Renew your Tax Entity Exemption Certificate' and is circled in red. A red arrow points from the callout box to the link.

Link to renew Sales & Use Tax Entity Exemption Certificate

Welcome to the Kansas Department of Revenue's website. How can we help you today?

Personal Tax
From here you can find information on [filing your personal taxes online](#), links to online [tax forms](#) such as the [K-40 tax form](#) and [Schedule S](#), [tutorials on filing taxes online](#), and how to [check your refund status](#). See [more personal tax options here](#).

Business Tax
From this section you can [find information on registering a business](#), [paying your business related taxes online](#), video tutorials on E-Services the department provides, [liquor information](#), [destination-based sales tax](#) and [web services](#), and answers to other business related questions. See [more business tax options here](#).

Vehicles...
From here you can [get in line for your driver's license](#), [order a copy of your driving record](#), [change your address](#), [log into the Driver's Education Instructor Portal](#) and find the location and information on [driver's license stations throughout the state](#). See [more vehicle options here](#).

Up to the Minute:
[03/31/2014 March revenue receipts beat estimates. Kansas \\$130.7 million more in tax receipts than expected for the fiscal year to date](#)

Search Website

FILE YOUR TAXES ONLINE

Popular Items

- Individual Income Tax Forms
- Check your refund online
- Renew your Tax Entity Exemption Certificate**
- Driver's Education Instructor Portal
- Driver's License Online Payments
- Tax Asset Seizure Auction Information
- Bingo forms
- Driver's license status check
- Frequently asked questions
- Local sales tax rates

Miscellaneous

- HB 2057 provides a formula for converting gallons of Liquid Natural Gas (LNG) and Compressed Natural Gas (CNG) to energy-equivalent gallons, for purposes of the motor fuel tax rates Motor Fuel Tax rate on (CNG) reduced to \$.24 per diesel gallon energy equivalent and on (LNG) reduced to \$0.26 per diesel gallon energy equivalent. See Notice 14-15.
- Fiduciary return (K-41) may now be filed through E-File or a paper return.
- Interest rate for calendar year 2014 on delinquent or unpaid taxes and overpayments of taxes remains the same. 4% (.333 monthly rate)
- Proposal To Authorize Raffles; Sub. for SCR 1618 Sub. for SCR 1618 submits a state constitutional amendment for consideration at the next general election, in November 2014. The amendment, if approved by voters, will allow charitable raffles by certain nonprofit organizations. The proposal will amend Section 3 of Article 15 in the *Kansas Constitution* to permit "raffles" if authorized by the Legislature. The amendment will allow the Legislature to authorize the licensing, conduct, and regulation of charitable raffles by nonprofit, religious, charitable, fraternal, educational, and veterans organizations. "Raffle" is defined in the proposed amendment to mean a game of chance in which each participant buys a ticket or tickets from a nonprofit organization, with each ticket providing an equal chance to win a prize and the winner being determined by a random drawing. The following limitations also are included in the constitutional amendment:
 - Discount rate for Nebraska and Missouri retailers collecting Kansas Retailers' Compensating Use Tax reduced effective January 1, 2015. Nebraska discount is now 2.5% up to \$3,000 for max of \$75 and Missouri discount is now 2%. See Notice 14-17

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Motor Fuel Tax: Sec. 9. K.S.A. 79-3492 is hereby amended to read as follows: 79-3492. (a) Except as otherwise provided in this act, a tax per gallon, or fraction thereof, at the rate computed as prescribed in K.S.A. 79-34,141, and amendments thereto, is hereby imposed on the LP-gas user or LP-gas dealer who places such LP-gas fuel into the fuel supply tank or tanks of any motor vehicle while such vehicle is within this state except that in those instances in which LP-gas is withdrawn from the cargo tank of a motor vehicle for the operation thereof upon the public highways of the state, the tax shall be imposed upon and measured only by that volume of LP-gas so withdrawn and used multiplied by the tax rate per gallon provided in this act. (b) *The conversion formula to be used to convert compressed natural gas and liquefied natural gas per gallon for the tax imposed pursuant to K.S.A. 79-34,141, and amendments thereto, shall be as follows: (1) For purposes of converting the energy equivalent of compressed natural gas to a gasoline gallon energy equivalent, 126.67 cubic feet or 5.66 pounds of compressed natural gas shall equal one gasoline gallon; or (2) for purposes of converting the energy equivalent of liquefied natural gas to a diesel gallon energy equivalent, 6.06 pounds of liquefied natural gas shall equal one diesel gallon.* Sec. 11. K.S.A. 2013 Supp. 79-34,141 is hereby amended to read as follows: 79-34,141. The tax imposed under this act shall be not less than: (1) On motor-vehicle fuels other than E85 fuels, \$.24 per gallon, or fraction thereof; (2) on special fuels, \$.26 per gallon, or fraction thereof; (3) on LP-gas, *other than compressed natural gas and liquefied natural gas*, \$.23 per gallon, or fraction thereof; (4) on E85 fuels, \$.17 per gallon, or fraction thereof; (5) *on compressed natural gas*, \$.24 per gallon, or fraction thereof; and (6) *on liquefied natural gas*, \$.26 per gallon, or fraction thereof. See Notice 14-15.

A PROPOSITION to amend article 15 of the constitution of the state of Kansas by adding a new section thereto, authorizing the legislature to permit the conduct of charitable raffles by certain nonprofit organizations. *Be it resolved by the Legislature of the State of Kansas, two-thirds of the members elected (or appointed) and qualified to the Senate and two-thirds of the members elected (or appointed) and qualified to the House of Representatives concurring therein:* Section 1. The following proposition to amend the constitution of the state of Kansas shall be submitted to the qualified electors of the state for their approval or rejection: Article 15 of the constitution of the state of Kansas is hereby amended by adding a new section thereto to read as follows: "**§ 3d. Regulation of "raffles" authorized.** Notwithstanding the provisions of section 3 of article 15 of the constitution of the state of Kansas, the legislature may authorize the licensing, conduct and regulation of charitable raffles by nonprofit religious, charitable, fraternal, educational and veterans organizations. A raffle means a game of chance in which each participant buys a ticket or tickets from a nonprofit organization with each ticket providing an equal chance to win a prize and the winner being determined by a random drawing. Such organizations shall not use an electronic gaming machine or vending machine to sell tickets or conduct raffles. No such nonprofit organization shall contract with a professional raffle or other lottery vendor to manage, operate or conduct any raffle. Raffles shall be licensed and regulated by the Kansas department of revenue, office of charitable gaming or successor agency." Sec. 2. The following statement shall be printed on the ballot with the amendment as a whole: "*Explanatory statement.* The constitution currently prohibits the operation of lotteries except for specifically authorized lotteries. A raffle is a lottery and is illegal under current law. "A vote for this proposition would permit the legislature to authorize charitable raffles operated or conducted by religious, charitable, fraternal, educational and veterans nonprofit organizations subject to the limitations listed. Nonprofit organizations would be prohibited from contracting with a professional lottery vendor to manage, operate or conduct a charitable raffle. "A vote against this proposition would continue the current prohibition against all raffles." Sec. 3. This resolution, if approved by two-thirds of the members elected (or appointed) and qualified to the Senate, and two-thirds of the members elected (or appointed) and qualified to the House of Representatives shall be entered on the journals, together with the yeas and nays. The secretary of state shall cause this resolution to be published as provided by law and shall cause the proposed amendment to be submitted to the electors of the state at the general election in November in the year 2014 unless a special election is called at a sooner date by concurrent resolution of the legislature, in which case it shall be submitted to the electors of the state at the special election.

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NOTICE 14-01

POLICY FOR LIABILITY RELIEF FROM CHANGES IN TAXABILITY MATRIX dated January 2, 2014

Taxability Matrix Liability Relief—K.S.A. 2013 Supp. 79-3677(c) provides:

Sellers and certified service providers are relieved from liability to this state or any local taxing jurisdiction for having charged and collected the incorrect amount of state or local sales or use tax resulting from the seller or certified service providers relying on erroneous data provided by the secretary in the taxability matrix. The Department will apply the following policy with respect to the above taxability matrix liability relief provision, concerning any changes made to the taxability matrix: If the Department amends an existing provision of the taxability matrix, the Department shall, to the extent possible, relieve sellers and certified service providers from liability to the Department and local jurisdictions until the first day of the calendar month that is at least 30 days after notice of a change to the taxability matrix is submitted to the governing board of the Streamlined Sales and Use Tax Agreement, provided the seller or certified service provider relied on the prior version of the taxability matrix.

Notice 14-02

Self-Employment Tax Deduction For Ministers (July 1, 2014)

During the 2012 Legislative Session there was a major change to Kansas law which provides an exemption for certain non-wage business income, including income properly reported on federal Schedule C and on line 12 of the federal 1040. To prevent a “double exemption” for self-employment income, K.S.A. 79-32,117, the statute which provides for addition and subtraction modifications, was amended to provide that, starting in tax year 2013, there be an “add-back” requirement for self-employment taxes.

Under federal tax law, the income a minister receives is considered wages in some respects and self-employment income in others. It is reported on a W-2 and not a Schedule C but, for employment tax purposes, it is treated as “self-employment” income. As a result a minister has to pay both the employee and employer share of those taxes, just like a business owner. Unlike a business owner, however, a minister does not get the benefit of the non-wage business income exemption for wage income reported on a W-2.

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. Section 3 of the Bill amends K.S.A. 79-32,117 to address a minister’s unique situation. Subsection (b)(xx), which is an addition modification, is amended to read:

(b) There shall be added to federal adjusted gross income:

(xx) For all taxable years beginning after December 31, 2012, the amount of any deduction for self-employment taxes under section 164(f) of the federal internal revenue code as in effect on January 1, 2012, and amendments thereto, in determining the federal adjusted gross income of an individual taxpayer, to the extent the deduction is attributable to income reported on schedule C, E or F and on line 12, 17 or 18 of the taxpayer’s form 1040 federal income tax return.

The amendment prevents ministers from being taxed on both their wage income and the self-employment tax they paid on that income.

Senate Bill 265 is effective July 1, 2014. However, because the amendment relates to all tax years beginning after December 31, 2012, the amended provision does apply to tax year 2013. As a result, any minister who added back their self-employment taxes from wage income reported on a W-2 on their 2013 income tax return can file an amended return and claim a refund. Amended returns will be accepted immediately.

Please note that the amendment to K.S.A. 79-32,117 found in Senate Bill 265 was later included in House Bill 2143. This House Bill is a reconciliation bill. A reconciliation bill is used when a statute is amended in two or more separate bills. K.S.A. 79-32,117 was included in the reconciliation bill because it was amended by section 3 of Senate Bill 265 and by section 6 of House Bill 2057.

Notice 14-03

Expenses Related To Human Organ Donation (July 1, 2014)

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. Section 3 of the Bill amends K.S.A. 79-32,117, which concerns addition and subtraction modifications for Kansas income tax purposes, to provide a subtraction modification for certain expenses related to the donation of human organs for transplantation into another person. Specifically, new subsection (c)(xxi), provides:

(c) There shall be subtracted from federal adjusted gross income:

(xxi) For all taxable years beginning after December 31, 2013, amounts equal to the unreimbursed travel, lodging and medical expenditures directly incurred by a taxpayer while living, or a dependent of the taxpayer while living, for the donation of one or more human organs of the taxpayer, or a dependent of the taxpayer, to another person for human organ transplantation. The expenses may be claimed as a subtraction modification provided for in this section to the extent the expenses are not already subtracted from the taxpayer's federal adjusted gross income. In no circumstances shall the subtraction modification provided for in this section for any individual, or a dependent, exceed \$5,000. As used in this section, "human organ" means all or part of a liver, pancreas, kidney, intestine, lung or bone marrow. The provisions of this paragraph shall take effect on the day the secretary of revenue certifies to the director of the budget that the cost for the department of revenue of modifications to the automated tax system for the purpose of implementing this paragraph will not exceed \$20,000.

Senate Bill 265 is effective July 1, 2014. At this time it appears the cost of implementing this provision will not exceed \$20,000 and that this modification will be available when individual income tax returns are filed for tax year 2014. Before filing an individual income tax return for tax year 2014, however, please check the instructions for confirmation that the modification is available.

Please note that the amendment to K.S.A. 79-32,117 found in Senate Bill 265 was later included in House Bill 2143. This House Bill is a reconciliation bill. A reconciliation bill is used when a statute is amended in two or more separate bills. K.S.A. 79-32,117 was included in the reconciliation bill because it was amended by section 3 of Senate Bill 265 and by section 6 of House Bill 2057.

Notice 14-04

Modification For Net Gain From Sale of Certain Livestock (Revised July 15, 2014)

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. Section 3 of the Bill amends K.S.A. 79-32,117, which relates to modifications made in computing Kansas adjusted gross income.

The calculation of Kansas income tax begins with federal adjusted gross income. Certain addition and subtraction modifications are then made in order to determine Kansas adjusted gross income. The amendment to K.S.A. 79-32,117 creates a new modification which allows the net gain from the sale of certain livestock to be subtracted from federal adjusted gross income. The amended language, found in subsection (c)(xxii) of K.S.A. 79-32,117, provides:

(c) There shall be subtracted from federal adjusted gross income:

(xxii) For all taxable years beginning after December 31, 2012, the amount of net gain from the sale of: (1) Cattle and horses, regardless of age, held by the taxpayer for draft, breeding, dairy or sporting purposes, and held by such taxpayer for 24 months or more from the date of acquisition; and (2) other livestock, regardless of age, held by the taxpayer for draft, breeding, dairy or sporting purposes, and held by such taxpayer for 12 months or more from the date of acquisition. The subtraction from federal adjusted gross income shall be limited to the amount of the additions recognized under the provisions of paragraph (xix) of subsection (b) attributable to the business in which the livestock sold had been used. As used in this paragraph, the term “livestock” shall not include poultry.

Effective Date / Amended Returns

The new subtraction modification found in amended K.S.A. 79-32,117(c)(xxii) applies to tax year 2013. It can be claimed on an amended 2013 income tax return by entering on Schedule S, Line A26 (other subtractions from federal adjusted gross income) the amount of net gain from sale of qualifying livestock (as described in new 79-32,117(c)(xxii)), and cannot exceed the amount of net losses entered as addition modifications on Lines A4, A6 and A7, which are attributable to the business in which the livestock sold had been used. A copy of federal Schedule 4797, as well as copies of all Schedules C, E or F, should be included with the amended return. Please see updated tax year 2013 instructions for Kansas Schedule S on the Department’s website: www.ksrevenue.org

Depreciation

The new subtraction modification applies to gains from the sale of certain livestock. This includes both the IRC Sec. 1231 capital gain and the depreciation recapture gain.

Non-Livestock Gains or Losses

IRC Sec. 1231 gains or losses from sale of non-livestock assets are outside the scope of new subtraction modification. Those gains are subject to Kansas income tax and those losses should not be “added back” under K.S.A. 79-32,117(b)(xix).

For example assume that Farmer Smith sells some breeding cattle for a \$5,000 gain. He also has a tractor (another Sec. 1231 asset) that he sells for a \$1,000 loss. He reports a net Sec. 1231 gain of \$4,000 on his federal form 4797 which then flows through to the federal Schedule D. He has a Schedule F loss of \$10,000.

In the example, the \$5,000 net gain from the sale of qualifying livestock becomes a subtraction modification of \$5,000, if the taxpayer’s Schedule F loss of \$10,000 (reported on Line 18 of the taxpayer's federal 1040 return, and which is an “add-back” modification under K.S.A. 79-32,117(b)(xix) on the Kansas K40 return) is attributable to the business in which the livestock sold had been used. If the taxpayer's Schedule F loss of \$10,000 is not attributable to the business in which the livestock sold had been used, then no subtraction modification for net gain from the sale of livestock would be allowed. The loss that is “added back” must be attributable to the business in which the livestock sold has been used, in order for the net gain from sale of livestock to be allowed as a subtraction modification up to the amount of that add-back loss.

Pass-Through Entities

Use of the new subtraction modification when there are pass-through entities depends on the facts of the situation. For example assume that Farmer Jones is the sole shareholder of an S corporation engaged in farming. The S corporation sells \$5,000 of breeding cattle which qualifies for the subtraction modification and generates an ordinary (operating) loss of \$3,000. Farmer Jones's K-1 from the S corporation shows a \$5,000 Sec. 1231 gain and an ordinary loss of \$3,000. Farmer Jones also farms some ground outside of the S corporation and his Schedule F farm loss is \$6,000.

In the example, the S corporation has a \$5,000 net gain (which passes through to the sole shareholder Farmer Jones) on the sale of livestock, which is an IRC Sec. 1231 capital gain, Farmer Jones will report on Schedule 4797. The S corporation’s farming operation also incurs a \$3,000 loss, which will be reported on Schedule E and Line 17 of the Farmer Jones’s individual federal 1040 return. Farmer Jones farming operation (outside the S corporation), incurs a \$6,000 loss, which will be reported on Schedule F and Line 18 of his individual federal 1040 return.

The key facts in determining whether the new subtraction modification can be claimed are whether the taxpayer has a loss reflected on Schedules C, E, or F and Lines 12, 17 or 18 of the taxpayer’s federal 1040 return that is shown as an “add-back” modification on the Kansas return, and whether such loss is attributable to a business in which the livestock sold was used. In the above example, Farmer Jones’ S corporation livestock operation and his farming operation outside his S corporation would be considered one farming business, in which the livestock sold was used. The

\$3,000 loss from the S corporation livestock operation reported on Schedule E and the \$6,000 loss from the farming operation reported on Schedule F exceed the \$5,000 net gain from the sale of livestock. As a result, the \$5,000 net gain from livestock sale can be claimed as a subtraction modification under new K.S.A. 79-32,117(c)(xxii).

In another example, assume that Farmer Jones is the sole shareholder of an S corporation engaged in farming. The S corporation sells \$30,000 of breeding cattle and also generates an ordinary (operating) loss of \$40,000. Farmer Jones's K-1 from the S corporation shows a \$30,000 Sec. 1231 gain and an ordinary loss of \$40,000. Farmer Jones also farms some ground outside of the S corporation and his Schedule F farm income is \$40,000 from selling grain. The cattle operation and the grain crop farming operation are both considered part of Farmer Jones's business in which the livestock sold had been used.

In this example, the S corporation has a \$30,000 net gain (which passes through to the sole shareholder Farmer Jones) on the sale of livestock, which is an IRC Sec. 1231 capital gain, Farmer Jones will report on Schedule 4797. The S corporation's farming operation also incurs a \$40,000 loss, which will be reported on Schedule E and Line 17 of the Farmer Jones's individual federal 1040 return. Farmer Jones farming operation (outside the S corporation), incurs a \$40,000 profit, which will be reported on Schedule F and Line 18 of his individual federal 1040 return. The \$40,000 Schedule E loss will offset the \$40,000 Schedule F income, so no subtraction modification will be available for the \$30,000 net gain from livestock sale under new K.S.A. 79-32,117(c)(xxii).

In a third example, assume that Farmer Jones is the sole shareholder of an S corporation engaged in farming. The S corporation sells \$30,000 of breeding cattle and also generates an ordinary (operating) loss of \$25,000. Farmer Jones's K-1 from the S corporation shows a \$30,000 Sec. 1231 gain and an ordinary loss of \$25,000. Farmer Jones also farms some ground outside of the S corporation and his Schedule F farm income is \$10,000 from selling grain. Farmer Jones also has a sole proprietorship carpentry business, separate from his farming business (i.e. any profit or loss from his carpentry business is not attributable to the business in which the livestock sold had been used), which earned a net profit of \$30,000, reported on Schedule C filed with Farmer Jones's federal 1040 return.

In this third example, the S corporation has a \$30,000 net gain (which passes through to the sole shareholder Farmer Jones) on the sale of livestock, which is an IRC Sec. 1231 capital gain, Farmer Jones will report on Schedule 4797. The S corporation's farming operation also incurs a \$25,000 loss, which will be reported on Schedule E and Line 17 of the Farmer Jones's individual federal 1040 return. Farmer Jones farming operation (outside the S corporation), incurs a \$10,000 profit, which will be reported on Schedule F and Line 18 of his individual federal 1040 return. The \$25,000 Schedule E loss and the \$10,000 Schedule F income partially offset one another, resulting in a net addition modification of \$15,000 under K.S.A. 79-32,117(b)(xix) attributable to the business in which the livestock sold had been used, so a subtraction modification for the net gain from livestock sale under new K.S.A. 79-32,117(c)(xxii) is allowed, but limited to \$15,000. Because the \$30,000 profit Farmer Jones's sole proprietorship carpentry business reported on Schedule C and line 12 of Farmer Jones's federal 1040 return is not attributable to the business in which the livestock sold had been used, it can be claimed as a subtraction modification under K.S.A. 79-32,117(c)(xx).

Notice 14-05

Adoption Credit Reenacted (July 1, 2014)

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. New Section 4 of the Bill reenacts the adoption credit that was found in K.S.A. 79-32,202 prior to its repeal during the 2012 Legislative Session. The reenacted provisions are effective for tax year 2014 and later years. Specifically, New Section 4 provides:

New Sec. 4. Commencing in tax year 2014, and all tax years thereafter, and in addition to the credit provided in subsection (b), there shall be allowed as a credit against the tax liability of a resident individual imposed under the Kansas income tax act an amount equal to: (1) 25% of the amount of the credit allowed against such taxpayer's federal income tax liability pursuant to section 23 of the federal internal revenue code determined without regard to subsection (c) of such section; (2) in addition to subsection (a)(1), 25% of the amount of such federal income tax credit, if the child adopted by the taxpayer was a resident of Kansas prior to such lawful adoption; and (3) in addition to subsections (a)(1) and (a)(2), 25% of the amount of such federal income tax credit, if the child adopted by the taxpayer is a child with special needs, as defined in section 23 of the federal internal revenue code, and the child was a resident of Kansas prior to such lawful adoption, for the taxable year in which such credit was claimed against the taxpayer's federal income tax liability.

(b) Commencing in tax year 2014, and all tax years thereafter, there shall be allowed as a credit against the tax liability of a resident individual imposed under the Kansas income tax act an amount equal to \$1,500 for the taxable year in which occurs the lawful adoption of a child in the custody of the secretary for children and families or a child with special needs, whether or not such individual is reimbursed for all or part of qualified adoption expenses or has received a public or private grant therefor. As used in this subsection, terms and phrases shall have the meanings ascribed thereto by the provisions of section 23 of the federal internal revenue code.

(c) The credit allowed by subsections (a) and (b) shall not exceed the amount of the tax imposed by K.S.A. 79-32,110, and amendments thereto, reduced by the sum of any other credits allowable pursuant to law. If the amount of such tax credit exceeds the taxpayer's income tax liability for such taxable year, the amount thereof which exceeds such tax liability may be carried over for deduction from the taxpayer's income tax liability in the next succeeding taxable year or years until the total amount of the tax credits has been deducted from tax liability.

Please note that specific information about how to claim the credit on the individual income tax return will be included in the instruction booklet.

Notice 14-06
Disabled Accessibility Credit For Dwellings Reenacted

**Disabled Accessibility Credit For Facilities Or Equipment Used
In A Trade Or Businesses Extended to Additional Taxpayers
(July 1, 2014)**

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. New Section 5 of the Bill reenacts the disabled accessibility credit of dwellings that was found in K.S.A. 79-32,177 prior to its repeal during the 2012 Legislative Session. The reenacted provisions are effective for tax year 2013 and later years. Specifically, New Section 5 provides:

New Sec. 5. (a) Any resident individual taxpayer who makes expenditures for the purpose of making all or any portion of an existing facility accessible to individuals with a disability, which facility is used as, or in connection with, such taxpayer’s principal dwelling or the principal dwelling of a lineal ascendant or descendant, including construction of a small barrier-free living unit attached to such principal dwelling, shall be entitled to claim a tax credit in an amount equal to the applicable percentage of such expenditures or \$9,000, whichever is less, against the income tax liability imposed against such taxpayer pursuant to article 32 of chapter 79 of the Kansas Statutes Annotated, and amendments thereto. Nothing in this subsection shall be deemed to prevent any such taxpayer from claiming such credit: (1) For each principal dwelling in which the taxpayer or lineal ascendant or descendant may reside, or facility used in connection therewith; or (2) more than once, but not more often than once every four-year period of time. The applicable percentage of such expenditures eligible for credit shall be as set forth in the following schedule:

Taxpayers Federal Adjusted Gross Income	% of expenditures eligible for credit
\$0 to \$25,000	100%
Over \$25,000 but not over \$30,000	90%
Over \$30,000 but not over \$35,000	80%
Over \$35,000 but not over \$40,000	70%
Over \$40,000 but not over \$45,000	60%
Over \$45,000 but not over \$55,000	50%
Over \$55,000	0

Such tax credit shall be deducted from the taxpayer’s income tax liability for the taxable year in which the expenditures are made by the taxpayer. If the amount of such tax credit exceeds the taxpayer’s income tax liability for such taxable year, the amount thereof which exceeds such tax liability may be carried over for deduction from the taxpayer’s income tax liability in the next succeeding taxable year or years until the total amount of the tax credit has been deducted from tax liability, except that no such tax credit shall be carried over for deduction after the fourth taxable year succeeding the taxable year in which the expenditures are made.

(b) Notwithstanding the provisions of subsection (a), if the amount of the taxpayer's tax liability is less than \$2,250 in the first year in which the credit is claimed under this section, an amount equal to the amount by which 1/4 of the credit allowable under this section exceeds such tax liability shall be refunded to the taxpayer and the amount by which such credit exceeds such tax liability less the amount of such refund may be carried over for the next three succeeding taxable years. If the amount of the taxpayer's tax liability is less than \$2,250 in the second year in which the credit is claimed under this section, an amount equal to the amount by which 1/3 of the amount of the credit carried over from the first taxable year exceeds such tax liability shall be refunded to the taxpayer and the amount by which the amount of the credit carried over from the first taxable year exceeds such tax liability less the amount of such refund may be carried over for the next two succeeding taxable years. If the amount of the taxpayer's tax liability is less than \$2,250 in the third year in which the credit is claimed under this section, an amount equal to the amount by which 1/2 of the amount carried over from the second taxable year exceeds such tax liability shall be refunded to the taxpayer and the amount by which the amount of the credit carried over from the second taxable year exceeds such tax liability less the amount of such refund may be carried over to the next succeeding taxable year. If the amount of the credit carried over from the third taxable year exceeds the taxpayer's income tax liability for such year, the amount thereof which exceeds such tax liability shall be refunded to the taxpayer.

(c) The provisions of this section are applicable to tax year 2013, and all tax years thereafter.

Senate Bill 265 is effective July 1, 2014. However, because the amendments made by New Section 5 relate to tax year 2013 an amended return can be filed to claim the credit and, if appropriate, a refund. Amended returns will be accepted immediately.

Section 6 of the Bill amends K.S.A. 79-32,177 to extend the disabled accessibility credit for facilities or equipment that is used in a trade of business to additional taxpayers. During the 2012 Legislative Session, K.S.A. 79-32,177 was amended to allow only corporate income tax payers to claim the credit for tax year 2013 and all tax years thereafter. Section 6 has now repealed this limitation and extends the ability to claim the credit to all income tax payers who qualify. The provisions of Section 6 are effective for tax year 2014 and later years.

Notice 14-07

More Counties Designated As Rural Opportunity Zones (July 1, 2014)

The 2011 Legislative Session passed Senate Bill 198 which designates 50 counties in Kansas as Rural Opportunity Zones (ROZ). As part of the bill, certain out-of-state taxpayers who relocate to these counties and meet certain criteria are provided an income tax credit. (See K.S.A. 2012 Supp. 79-32,267, which effectively grants an income tax exemption for certain qualifying years.) For additional information, see Notice 11-03.

During the 2013 Legislative Session House Bill 2059 was passed and signed into law. Section 9 of the Bill amended K.S.A. 2012 Supp. 74-50,222 to expand the number of counties which have received the ROZ designation. For additional information, see Notice 13-13.

During the 2014 Legislative Session House Bill 2643 was passed and signed into law. Section 19 of the Bill amends K.S.A. 2013 Supp. 74-50,222 to expand the number of counties which have received the ROZ designation. The newly designated counties are:

Cherokee, Labette, Montgomery and Sumner

As of tax year 2014, these newly designated counties will be considered as ROZ counties, and the income tax credit mentioned above will be available for out-of-state taxpayers who relocate to these counties, if the requirements set forth in K.S.A. 79-32,267 are met.

The new language, found in the amendment to subsection (b) of K.S.A. 2013 Supp. 74-50,222, changes the definition of “rural opportunity zone”. It provides as follows (new counties in *italics*):

(b) “rural opportunity zone” means Allen, Anderson, Barber, Bourbon, Brown, Chase, Chautauqua, *Cherokee*, Cheyenne, Clark, Clay, Cloud, Coffey, Comanche, Decatur, Doniphan, Edwards, Elk, Ellsworth, Gove, Graham, Grant, Gray, Greeley, Greenwood, Hamilton, Harper, Haskell, Hodgeman, Jackson, Jewell, Kearny, Kingman, Kiowa, *Labette*, Lane, Lincoln, Linn, Logan, Marion, Marshall, Meade, Mitchell, *Montgomery*, Morris, Morton, Nemaha, Neosho, Ness, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Rawlins, Republic, Rice, Rooks, Rush, Russell, Scott, Sheridan, Sherman, Smith, Stafford, Stanton, Stevens, *Sumner*, Trego, Thomas, Wabaunsee, Wallace, Washington, Wichita, Wilson or Woodson counties;

Notice 14-08

Income Tax Penalty (July 1, 2014)

During the 2014 Legislative Session House Bill 2643 was passed and signed into law. Section 18 of the Bill amends K.S.A. 79-3228, which deals with penalties and interest imposed with regard to Kansas income tax.

The amendments address a situation in which a taxpayer has timely filed an income tax return, and paid any tax due, and that return is subsequently adjusted and additional tax is assessed by the Department. In that event, if the taxpayer pays the additional tax within 30 days of notice of the liability no 50% penalty will be imposed under subsection (d) of K.S.A. 79-3228. If, however, the additional tax assessed is not paid within 30 days of notice of the liability a penalty is imposed. The amount of that penalty will be equal to 50% of the unpaid balance of tax due.

The amendments are effective for tax year 2014 and subsequent years. The amended language, found in subsection (d) of K.S.A. 79-3228, provides:

(d) For all taxable years ending after December 31, 2013, if any taxpayer who has failed to file a return, and after notice from the director refuses or neglects within 20 days to file a proper return, the director shall determine the income of such taxpayer according to the best available information and assess the tax together with a penalty of 50% of the unpaid balance of tax due plus interest at the rate prescribed by subsection (a) of K.S.A. 79-2968, and amendments thereto, from the date the tax was originally due to the date of payment. If, at any time, a taxpayer filed a return and paid in full the tax due as stated on the return, at the time required by or under the provisions of this act and subsequently is adjusted by the director, and a notice of liability is sent to the taxpayer, no penalty shall be assessed under the provisions of this subsection with respect to any underpayment of income tax liability due to the adjustment if any such tax is paid within 30 days of such notice of liability. If any such tax is not paid within 30 days of original notice, the penalty provided under the provisions of this subsection shall apply.

Notice 14-09

**Withholding Repealed For Nonresident Shareholders Of S Corporations,
Partners, And Members Of Limited Liability Companies
(July 1, 2014)**

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. Section 9 of the Bill repeals K.S.A. 79-32,100e. K.S.A. 79-32,100e is part of the Kansas withholding tax act, and its provisions require that:

Corporations for which an election as a S corporation under subchapter S of the federal internal revenue code is in effect are required to deduct and withhold tax . . . from a nonresident shareholder's share of Kansas taxable income of the corporation, whether distributed or undistributed . . .

Partnerships are required to withhold tax . . . from a nonresident partner's share of Kansas taxable income of the partnership, whether distributed or undistributed . . .

Limited liability companies are required to withhold tax . . . from a nonresident member's share of Kansas taxable income of the limited liability company, whether distributed or undistributed . . .

The reporting requirements of K.S.A. 79-32,100e are accomplished by using Kansas forms KW-7, KW-7S, or KW-7A, in addition form K-19.

Senate Bill 265 is effective July 1, 2014. As a practical matter, however, in many cases the repeal of K.S.A. 79-32,100e is effective immediately because withholding is not reported until the end of the year. If income tax is withheld from a shareholder, partner, or member and remitted to the state of Kansas during tax year 2014, the shareholder, partner, or member can file a 2014 income tax return and claim a refund, if appropriate.

Notice 14-10

Expensing Deduction Available To Financial Institutions (July 1, 2014)

During the 2014 Legislative Session House Bill 2057 was passed and signed into law. Section 7 of the Bill amends K.S.A. 79-32,143a, which provides for an expense deduction, to permit certain financial institutions to claim the deduction against bank privilege tax liability.

Prior to enactment of this Bill the expense deduction found in K.S.A. 79-32,143a was only available to taxpayers subject to the income tax on corporations. This limitation was found in subsection (h) of the statute. Subsection (h) has been amended, effective for tax year 2014 and subsequent years, and now provides:

(h) (1) For tax year 2013, and all tax years thereafter, the deduction allowed by this section shall only be available to taxpayers subject to the income tax on corporations imposed pursuant to subsection (c) of K.S.A. 79-32,110, and amendments thereto, and used only to determine such taxpayer's corporate income tax liability.

(2) For tax year 2014, and all tax years thereafter, the deduction allowed by this section shall only be available to taxpayers subject to the income tax on corporations imposed pursuant to subsection (c) of K.S.A. 79-32,110, and amendments thereto, or the privilege tax imposed upon any national banking association, state bank, savings bank, trust company or savings and loan association pursuant to article 11 of chapter 79 of the Kansas Statutes Annotated, and amendments thereto, and used only to determine such taxpayer's corporate income or privilege tax liability.

Notice 14-11

Amended Definition of Income for Homestead Property Or Property Tax Relief Refund Claims Retroactive to 2013 (July 1, 2014)

During the 2014 Legislative Session Senate Bill 265 was passed and signed into law. Section 2 of the Bill amends K.S.A. 79-4502, which defines terms used for homestead property tax relief claims, to change the definition of “income”.

In 2012 the Kansas Legislature enacted major changes to the Kansas income tax act which were effective for tax year 2013. The calculation of Kansas adjusted gross income was changed by the enactment of a new subtraction modification which exempted certain business income from Kansas income tax, and new addition modifications which made certain business losses and deductions subject to the tax. [See Notice 12-11] The new addition modifications were included in K.S.A. 79-32,117, as subsection (b)(xx) through (xxiii) and the new subtraction modification was included as subsection (c)(xx).

The amount of adjusted gross income determined under the Kansas income tax act is used as the starting point in the calculation of income for homestead property tax refund claims. Section 2 of Senate Bill 265 changes the manner in which income is computed for homestead property tax refund purposes by disregarding some of those modifications which were enacted in 2012. The amended language, found in subsection (a) of K.S.A. 79-4502, now provides:

(a) “Income” means the sum of adjusted gross income under the Kansas income tax act effective for tax year 2013 and thereafter without regard to any modifications pursuant to K.S.A. 79-32,117(b)(xx) through (xxiii) and (c)(xx), and amendments thereto, maintenance, support money, cash public assistance and relief, not including any refund granted under this act, the gross amount of any pension or annuity, including all monetary retirement benefits from whatever source derived, including but not limited to, all payments received under the railroad retirement act, except disability payments, payments received under the federal social security act, except that for determination of what constitutes income such amount shall not exceed 50% of any such social security payments and shall not include any social security payments to a claimant who prior to attaining full retirement age had been receiving disability payments under the federal social security act in an amount not to exceed the amount of such disability payments or 50% of any such social security payments, whichever is greater, all dividends and interest from whatever source derived not included in adjusted gross income, workers compensation and the gross amount of “loss of time” insurance. Income does not include gifts from nongovernmental sources or surplus food or other relief in kind supplied by a governmental agency, nor shall net operating losses and net capital losses be considered in the determination of income. Income does not include veterans disability pensions. Income does not include disability payments received under the federal social security act.

The revised definition of income for homestead property tax refund claims is also used for property tax relief refund claims made under the selective assistance for effective senior relief (SAFESR) program. The controlling statute, K.S.A. 79-32,263 has been amended to provide, in part, that:

For purposes of this section, “household income” means all income as defined in K.S.A. 79-4502(a), and amendments thereto, including any payments received under the federal social security act, received by persons of a household in a calendar year while members of such household. The provisions of this act shall be part of and supplemental to the homestead property tax refund act.

Although enacted during the 2014 Legislative Session, the amendments to K.S.A. 79-4502(a) are effective for tax year 2013. As a result, anyone who filed a homestead property or property tax relief refund claim for tax year 2013 should review their claim to see whether they still meet the income qualifications. Anyone who does not qualify will be required to repay the amount they received. In that event, please contact the Department of Revenue for instructions on how to file an amended claim and repay the amount received.

Notice 14-12

Mineral Severance Tax Return Due Date (July 1, 2014)

[Note: This Notice replaces Notice 12-16 which has been revoked.]

During the 2014 Legislative Session Senate Bill 266 was passed and signed into law. Section 7 of the Bill amends K.S.A. 79-4220, and Section 8 amends K.S.A. 79-4221, both of which address the Kansas mineral severance tax

Prior to enactment of this Bill the mineral severance tax return was due by the end of the first month following production, and the tax remittance was due on the twentieth (20th) day of the second month following production. Under the amended provisions, both the return and the remittance will be due on the twentieth (20th) day of the second month following production.

Senate Bill 266 is effective July 1, 2014. As a result, production during July will be reported, and the tax on this production will be due, on September 20, 2014. Production in reporting periods prior to July 1, 2014, will continue to be subject to current reporting and payment requirements.

The amendments to K.S.A. 79-4220 and 79-4221 also restate several provisions of the statutes to provide clarity.

Notice 14-13

New Sales Tax Exemption for Certain Agricultural Operations (June 2014)

The Conference Committee Report on House Substitute for Senate Bill 265 was passed and signed into law to provide a new sales tax exemption, effective July 1, 2014. New subsection (hhhh) of K.S.A 2014 Supp. 79-3606 will exempt:

(hhhh) all sales of tangible personal property or services purchased on or after July 1, 2014, for the purpose of and in conjunction with constructing, reconstructing, enlarging or remodeling a business identified under the North American industry classification system (NAICS) subsectors 1123, 1124, 112112, 112120 or 112210, and the sale and installation of machinery and equipment purchased for installation at any such business. The exemption provided in this subsection shall not apply to projects that have actual total costs less than \$50,000. When a person contracts for the construction, reconstruction, enlargement or remodeling of any such business, such person shall obtain from the state and furnish to the contractor an exemption certificate for the project involved, and the contractor may purchase materials, machinery and equipment for incorporation in such project. The contractor shall furnish the number of such certificates to all suppliers from whom such purchases are made, and such suppliers shall execute invoices covering the same bearing the number of such certificate. Upon completion of the project, the contractor shall furnish to the owner of the business a sworn statement, on a form to be provided by the director of taxation, that all purchases so made were entitled to exemption under this subsection. All invoices shall be held by the contractor for a period of five years and shall be subject to audit by the director of taxation. Any contractor or any agent, employee or subcontractor of the contractor, who shall use or otherwise dispose of any materials, machinery or equipment purchased under such a certificate for any purpose other than that for which such a certificate is issued without the payment of the sales or compensating tax otherwise imposed thereon, shall be guilty of a misdemeanor and, upon conviction therefor, shall be subject to the penalties provided for in subsection (g) of K.S.A. 79-3615, and amendments thereto.

The NAICS subsectors listed in subsection (hhhh) refer to the following businesses:

- 1123 Poultry and Egg Production
- 1124 Sheep and Goat Farming
- 112112 Cattle Feedlots
- 112120 Dairy Cattle and Milk Production
- 112210 Hog and Pig Farming

In June, the department will publish a new form on its website for qualifying businesses to use to request a project exemption certificate under new subsection (hhhh). (www.ksrevenue.org). To request a project exemption certificate, the business must complete the request form and submit it to the department. A project exemption certificate that the department issues under the new subsection cannot be used to claim exemption on purchases the business makes before July 1, 2014.

Notice 14-14

Tax Credit for Low Income Students Scholarship (May 1, 2014)

During the 2014 Legislative Session, Senate Substitute for House Bill 2506 was passed and signed into law. Sections 55 through 61 provide a tax credit for low income students scholarship program. This program provides eligible students with scholarships to pay all or a portion of tuition to attend a qualified school in Kansas.

An “eligible student” is a child who qualifies as an at-risk pupil (eligible for free lunch under the National School Lunch Act) and: 1) Attends a school that would qualify as either a Title I Focus School or a Title I Priority School; or 2) Received an educational scholarship under this program and has not graduated from high school or reached 21 years of age. Eligible students will be required to reside in Kansas while receiving a scholarship and be enrolled in a public school in the year prior to receiving the scholarship or be eligible to be enrolled in a public school, if under the age of 6.

A “qualified school” is any nonpublic school that provides education to elementary and secondary students, has notified the state board of its intention to participate in the program and complies with the requirements of the program.

The scholarship is financed through a tax credit against corporate income and premium (insurance companies) or privilege (financial institutions) tax liability beginning with tax year 2015 in an amount equal to 70% of the amount contributed for scholarships.

Contributions will be made to a scholarship granting organization who will in turn disburse not less than 90% of the contributions received to eligible students in the form of educational scholarships within 36 months of receipt. The scholarship may not exceed \$8,000 per eligible student for each school year and shall cover all or a portion of the costs of tuition, fees, and expenses of a qualified school and if applicable, the costs of transportation to a qualified school if provided by the qualified school.

A “scholarship granting organization” is defined as an organization that complies with the requirements of this program and provides educational scholarships to students attending qualified schools of their parents’ choice.

The credit will be claimed and deducted from the taxpayer’s tax liability during the tax year in which the contribution was made.

Total amount of credits allowed in each tax year is limited to \$10 million.

Specifically sections 55 through 61 provide:

New Sec. 55. The provisions of sections 55 through 61, and amendments thereto, shall be known and may be cited as the tax credit for low income students scholarship program act.

New Sec. 56. As used in the tax credit for low income students scholarship program act:

- (a) “Contributions” means monetary gifts or donations and in-kind contributions, gifts or donations that have an established market value.
- (b) “Department” means the Kansas department of revenue.
- (c) “Educational scholarship” means an amount not to exceed \$8,000 provided to eligible students to cover all or a portion of the costs of tuition, fees and expenses of a qualified school and, if applicable, the costs of transportation to a qualified school if provided by such qualified school.
- (d) “Eligible student” means a child who:
 - (1) (A) Qualifies as an at-risk pupil as defined in K.S.A. 72-6407, and amendments thereto, and who is attending a school that would qualify as either a title I focus school or a title I priority school as described by the state board under the elementary and secondary education act flexibility waiver as amended in January 2013; or (B) has received an educational scholarship under this program and has not graduated from high school or reached 21 years of age;
 - (2) resides in Kansas while receiving an educational scholarship; and
 - (3) (A) was enrolled in any public school in the previous school year in which an educational scholarship is first sought for the child; or (B) is eligible to be enrolled in any public school in the school year in which an educational scholarship is first sought for the child and the child is under the age of six years.
- (e) “Parent” includes a guardian, custodian or other person with authority to act on behalf of the child.
- (f) “Program” means the tax credit for low income students scholarship program established in sections 55 through 61, and amendments thereto.
- (g) “Public school” means a school that would qualify as either a title I focus school or a title I priority school as described by the state board under the elementary and secondary education act flexibility waiver as amended in January 2013 and is operated by a school district.
- (h) “Qualified school” means any nonpublic school that provides education to elementary and secondary students, has notified the state board of its intention to participate in the program and complies with the requirements of the program.
- (i) “Scholarship granting organization” means an organization that complies with the requirements of this program and provides educational scholarships to students attending qualified schools of their parents’ choice.
- (j) “School district” or “district” means any unified school district organized and operating under the laws of this state.
- (k) “School year” shall have the meaning ascribed thereto in K.S.A. 72-6408, and amendments thereto.
- (l) “Secretary” means the secretary of revenue.

(m) "State board" means the state board of education.

New Sec. 57. (a) There is hereby established the tax credit for low income students scholarship program. The program shall provide eligible students with an opportunity to attend schools of their parents' choice.

(b) Each scholarship granting organization shall issue a receipt, in a form prescribed by the secretary, to each contributing taxpayer indicating the value of the contribution received. Each taxpayer shall provide a copy of such receipt when claiming the tax credit established in section 61, and amendments thereto.

(c) Prior to awarding an educational scholarship to an eligible student, unless such student is under the age of six years, the scholarship granting organization shall receive written verification from the state board that such student is an eligible student under this program, provided the state board and the board of education of the school district in which the eligible student was enrolled the previous school year have received written consent from such eligible student's parent authorizing the release of such information.

(d) Upon receipt of information in accordance with subsection (a)(2) of section 58, and amendments thereto, the state board shall inform the scholarship granting organization if such student has already been designated to receive an educational scholarship by another scholarship granting organization.

(e) In each school year, each eligible student under this program shall not receive more than one educational scholarship under this program.

(f) An eligible student's participation in this program by receiving an educational scholarship constitutes a waiver to special education services provided by any school district, unless such school district agrees to provide such services to the qualified school.

New Sec. 58. (a) To be eligible to participate in the program, a scholarship granting organization shall comply with the following:

(1) The scholarship granting organization shall notify the secretary and the state board of the scholarship granting organization's intent to provide educational scholarships to students attending qualified schools;

(2) upon granting an educational scholarship to an eligible student, the scholarship granting organization shall report such information to the state board;

(3) the scholarship granting organization shall provide verification to the secretary that the scholarship granting organization is exempt from federal income taxation pursuant to section 501(c)(3) of the federal internal revenue code of 1986;

(4) upon receipt of contributions in an aggregate amount or value in excess of \$50,000 during a school year, a scholarship granting organization shall file with the state board either:

(A) A surety bond payable to the state in an amount equal to the aggregate amount of contributions expected to be received during the school year; or

(B) financial information demonstrating the scholarship granting organization's ability to pay an aggregate amount equal to the amount of the contributions expected to be received during the school year, which must be reviewed and approved of in writing by the state board;

(5) scholarship granting organizations that provide other nonprofit services in addition to providing educational scholarships shall not commingle contributions made under the program with other contributions made to such organization. A scholarship granting organization under this subsection shall also file with the state board, prior to the commencement of each school year, either:

(A) A surety bond payable to the state in an amount equal to the aggregate amount of contributions expected to be received during the school year; or

(B) financial information demonstrating the nonprofit organization's ability to pay an aggregate amount equal to the amount of the contributions expected to be received during the school year, which must be reviewed and approved of in writing by the state board;

(6) the scholarship granting organization shall ensure that each qualified school receiving educational scholarships from the scholarship granting organization is in compliance with the requirements of the program;

(7) at the end of the calendar year, the scholarship granting organization shall have its accounts examined and audited by a certified public accountant. Such audit shall include, but not be limited to, information verifying that the educational scholarships awarded by the scholarship granting organization were distributed to the eligible students determined by the state board under subsection (c) of section 57, and amendments thereto, and information specified in this section. Prior to filing a copy of the audit with the state board, such audit shall be duly verified and certified by a certified public accountant; and

(8) if a scholarship granting organization decides to limit the number or type of qualified schools who will receive educational scholarships, the scholarship granting organization shall provide, in writing, the name or names of those qualified schools to any contributor and the state board.

(b) No scholarship granting organization shall provide an educational scholarship for any eligible student to attend any qualified school with paid staff or paid board members, or relatives thereof, in common with the scholarship granting organization.

(c) The scholarship granting organization shall disburse not less than 90% of contributions received pursuant to the program to eligible students in the form of educational scholarships within 36 months of receipt of such contributions. If such contributions have not been disbursed within the applicable 36-month time period, then the scholarship granting organization shall not accept new contributions until 90% of the received contributions have been disbursed in the form of educational scholarships. Any income earned from contributions must be disbursed in the form of educational scholarships.

(d) A scholarship granting organization may continue to provide an educational scholarship to an eligible student who received an educational scholarship under this program in the year immediately preceding the current school year.

(e) A scholarship granting organization shall direct payments of an educational scholarship to the qualified school on behalf of the eligible student. Payment shall be made by check made payable to both the parent and the qualified school. If an eligible student transfers to a new qualified school during a school year, the scholarship granting organization shall direct payment in a prorated amount to the original qualified school and the new qualified school based on the eligible student's attendance. If the eligible student transfers to a public school and enrolls in such public school after September 20 of the current school year, the scholarship granting organization shall direct payment in a prorated amount to the original qualified school and the public school based on the eligible student's attendance. The prorated amount to the public school shall be considered a donation and shall be paid to the school district of such public school in accordance with K.S.A. 72-8210, and

amendments thereto, to provide for the education of such eligible student.

(f) By June 1 of each year, a scholarship granting organization shall submit a report to the state board for the educational scholarships provided in the immediately preceding 12 months. Such report shall be in a form and manner as prescribed by the state board, approved and signed by a certified public accountant, and shall contain the following information:

- (1) The name and address of the scholarship granting organization;
- (2) the name and address of each eligible student receiving an educational scholarship by the scholarship granting organization;
- (3) the total number and total dollar amount of contributions received during the 12-month reporting period; and
- (4) the total number and total dollar amount of educational scholarships awarded during the 12-month reporting period and the total number and total dollar amount of educational scholarships awarded during the 12-month reporting period to eligible students who qualified under subsection (d) of section 56, and amendments thereto.

(g) No scholarship granting organization shall:

- (1) Provide an eligible student with an educational scholarship established by funding from any contributions made by any relative of such eligible student; or
- (2) accept a contribution from any source with the express or implied condition that such contribution be directed toward an educational scholarship for a particular eligible student.

New Sec. 59. On or before the first day of the legislative session in 2015, and each year thereafter, the state board shall prepare and submit a report to the legislature on the program. Annual reports shall include information reported to the state board under subsection (f) of section 58, and amendments thereto, and a summary of such information.

New Sec. 60. (a) (1) To qualify for the tax credit allowed by this act, the scholarship granting organization shall apply each tax year to the state board for a certification that the scholarship granting organization is in substantial compliance with the program based on information received in the annual audit and yearly report filed by the scholarship granting organization with the state board.

(2) The state board shall prescribe the form of the application, which shall include, but not be limited to, the information set forth in subsection (a)(1).

(b) If the state board determines that the requirements under this section were met by the scholarship granting organization, the state board shall issue a certificate of compliance to the director of taxation.

(c) The state board shall adopt rules and regulations to implement the provisions of this section.

New Sec. 61. (a) There shall be allowed a credit against the corporate income tax liability imposed upon a taxpayer pursuant to the Kansas income tax act, the privilege tax liability imposed upon a taxpayer pursuant to the privilege tax imposed upon any national banking association, state bank, trust company or savings and loan association pursuant to article 11 of chapter 79 of the Kansas Statutes Annotated, and amendments thereto, and the premium tax liability imposed upon a taxpayer pursuant to the premiums tax and privilege fees imposed upon an insurance company pursuant to K.S.A. 40-252, and amendments thereto, for tax years commencing after December 31,

2014, an amount equal to 70% of the amount contributed to a scholarship granting organization authorized pursuant to section 55 et seq., and amendments thereto.

(b) The credit shall be claimed and deducted from the taxpayer's tax liability during the tax year in which the contribution was made to any such scholarship granting organization.

(c) For each tax year, in no event shall the total amount of credits allowed under this section exceed \$10,000,000 for any one tax year. Except as otherwise provided, the allocation of such tax credits for each scholarship granting organization shall be determined by the scholarship granting organization in consultation with the secretary, and such determination shall be completed prior to the issuance of any tax credits pursuant to this section.

(d) If the amount of any such tax credit claimed by a taxpayer exceeds the taxpayer's income, privilege or premium tax liability, such excess amount may be carried over for deduction from the taxpayer's income, privilege or premium tax liability in the next succeeding year or years until the total amount of the credit has been deducted from tax liability.

(e) The secretary shall adopt rules and regulations regarding filing of documents that support the amount of credit claimed pursuant to this section.

Section 62 of Senate Substitute for House Bill 2506 amends K.S.A. 79-32,138 to provide an add back modification to federal adjusted gross income for the amount of the charitable contribution that is made to a scholarship granting organization to the extent that contribution is claimed as the basis for the credit under Section 61. Specifically Section 62 provides:

(b) There shall be added to federal taxable income:

(v) The amount of any charitable contribution deduction claimed for any contribution or gift made to a scholarship granting organization to the extent the same is claimed as the basis for the credit allowed pursuant to section 61, and amendments thereto.

Notice 14-15

2014 Motor Fuel Legislative Update (Revised)

The following Bills were enacted by the 2014 Legislature:

House Bill 2057

This bill is effective July 1, 2014, upon publication in the statute book. A summary of the bill is as follows:

Section 9 amends K.S.A. 79-3492 to include a conversion formula to convert natural gas to a per gallon energy equivalent. 126.67 cubic feet or 5.66 pounds of compressed natural gas will equal one gasoline gallon. The conversion formula to convert the energy equivalent of liquefied natural gas to a diesel gallon energy equivalent will be 6.06 pounds of liquefied natural gas, to equal one diesel gallon.

Section 10 amends K.S.A. 79-3495 to clarify that it will be unlawful for any LP-gas user or dealer to use or sell LP-gas within Kansas, unless they hold a valid license, or unless such user has remitted the tax to a licensed LP-gas dealer.

Section 11 amends K.S.A. 79-34,141. (3) clarifies that the tax rate of \$.23 per gallon for LP-gas does not include compressed natural gas and liquefied natural gas. (5) indicates the tax rate for compressed natural gas is \$.24 per gallon or fraction thereof. (6) taxes liquefied natural gas at \$.26 per gallon or fraction thereof.

House Bill 2231

This bill is effective upon publication in the Kansas Register. A summary of the bill is as follows:

Section 114 amends K.S.A. 79-34,156 to indicate that 'no' moneys shall be transferred to the Kansas Qualified Biodiesel Fuel Producer Incentive Fund during the fiscal year ending June 30, 2015.

Notice 14-16

New Sales Tax Exemption for Surface Mining Operators (June 2014)

2014 House Bill 2378 adds machinery and equipment used in surface mining to the various items that the Kansas legislature has cataloged in K.S.A. 2013 Supp. 79-3606(kk)(4) and deemed to be exempt. New subsection (4)(F), which becomes law on July 1, 2014, provides:

(4) The following machinery, equipment and materials shall be deemed to be exempt even though it may not otherwise qualify as machinery and equipment used as an integral or essential part of an integrated production operation:

(F) all machinery and equipment used in surface mining activities as described in K.S.A. 49-601 et seq., and amendments thereto, beginning from the time a reclamation plan is filed to the acceptance of the completed final site reclamation.

K.S.A. 49-603(j) defines the term "surface mining" for purposes of the new exemption:

(j)(1) "Surface mining" means the mining of material, except for coal, oil and gas, for sale or for processing or for consumption in the regular operation of a business by removing the overburden lying above natural deposits and mining directly from the natural deposits exposed, or by mining directly from deposits lying exposed in their natural state, or the surface effects of underground mining. Surface mining shall include dredge operations lying outside the high banks of streams and rivers.

(2) Removal of overburden and mining of limited amounts of any materials shall not be considered surface mining when done only for the purpose and to the extent necessary to determine the location, quantity or quality of the natural deposit, if the materials removed during exploratory excavation or mining are not sold, processed for sale or consumed in the regular operation of a business.

The exemption is limited to operators that engage in surface mining and are licensed to do so by the Kansas Conservation Commission. *K.S.A. 49-603(a), (c), and (e); K.S.A. 49-605.* Surface-mining operators include concrete manufacturers that mine limestone, qualifying sand or gravel retailers, crushed limestone and lime producers and ready-mix concrete businesses that operate qualifying sand or gravel pits for consumption or sale.

Mining is done to extract minerals, rock, and other naturally-occurring geological materials from the earth. Surface mining is a broad category of mining that is commonly understood to involve the removal of soil and rock --- the overburden--- that overlies a valuable geological deposit so the deposit can be accessed and removed from the earth. However, K.S.A. 49-603(j) defines "surface

mining" more broadly so that exemption applies to machinery and equipment used in (1) strip mining, open pit mining, and contour mining operations, (2) quarrying, (3) the mining of surface deposits that lie exposed in their natural state, (4) reclamation projects undertaken by mine operators to correct the surface effects of underground mining, provided the mining did not involve the removal of coal, oil, or gas, and (5) dredging operations that are located outside the high banks of streams and rivers.

Surface mining does not include underground mining in which the geological deposit is accessed and removed through shafts or tunnels. The exemption does not apply to equipment used for prospecting, exploration, or for what is occasionally referred to as "borehole mining" for oil or gas. The exemption does not apply to equipment used for coal, oil, or gas severance or to remediate petroleum, chemical, or brine-impacted soil that is commonly found at petroleum drilling, storage, production, and retail sites.

Surface mining, as defined at K.S.A. 49-603(j), requires the use of heavy equipment. Bulldozers, power shovels, front-end loaders, scrapers, backhoes, and other types of earthmoving equipment are used to remove the overburden. The rock and mineral deposits are often severed from their naturally occurring state by the use of boring equipment that penetrates the deposit to allow blasting, by the use of bulldozer-mounted rippers, and by hydraulic hammers mounted on power-shovel booms. In other types of surface mining, power shovels, draglines, pipelines, dredges, and bucket-wheel excavators are used to remove deposits, such as sand and gravel. Some of this equipment loads the deposits on conveyor belts or into trucks and trailers for hauling.

The revised *Integrated Production Machinery and Equipment Exemption Certificate*, ST-201, (Rev. 6/14) allows licensed surface-mine operators to claim exemption, beginning July 1, 2014, for purchases of both their surface mining equipment and the integrated production equipment they use to crush, size, and convey the mineral or rock after it has been severed from the earth. Licensed surface mining operators should check the first two boxes listed in line 4 of ST-201, which will allow exemption to be claimed for the:

Purchase, lease, or rental of the integrated production equipment described in line 1.

Purchase, lease, or rental of surface-mining equipment, as discussed in Notice 14-16.

Notice 14-17

Kansas Vendor Discount Rates Reduced for Missouri and Nebraska Retailers (Effective January 1, 2015)

Currently, pursuant to Section 144.081 of the Missouri Revised Statutes, retailers designated or required to collect the Missouri use tax are entitled to take a discount equal to 2% of use tax timely remitted as reimbursement for the cost of collecting the tax.

Currently, Nebraska Revised Statutes Section 77-2703(2)(d) provides to retailers designated or required to collect the Nebraska use tax a discount equal to 2.5% of the first \$3,000 of use tax timely remitted each month as reimbursement for the cost of collecting the tax.

By Agreement between Missouri and Kansas in effect since 1968, the discount rate extended to Missouri retailers who collect and remit the Kansas Retailers' Compensating Use Tax has been 3 percent (3%) of the tax remitted when the remittance is timely.

By Agreement between Nebraska and Kansas in effect since 1968, the discount rate extended to Nebraska retailers who collect and remit the Kansas Retailers' Compensating Use Tax has been 3 percent (3%) of the tax remitted when the remittance is timely.

Effective for returns (Form CT-9U) filed on or after January 1, 2015 by Missouri retailers, the Kansas "vendor discount rate" is reduced to two percent (2.0%) of the Kansas Retailers' Compensating Use Tax timely remitted.

Effective for returns (Form CT-9U) filed on or after January 1, 2015 by Nebraska retailers, the Kansas "vendor discount rate" is reduced to two and one-half percent (2.5%) of the first \$3,000 of Kansas Retailers' Compensating Use Tax timely remitted each month.

The Kansas "vendor discount rate" for retailers in Oklahoma collecting and remitting the Kansas Retailers' Compensating Use Tax (1% of Kansas tax timely remitted with a maximum cap of \$2500 per month) remains in effect.

Taxpayer Assistance

Additional copies of this notice, forms or publications are available from our web site, www.ksrevenue.org. If you have questions about income tax, please contact:

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