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NOTICE 13-06

HOMESTEAD PROPERTY TAX REFUNDS – EXPENSING DEDUCTIONS

Advice has been requested regarding the calculation of "income" for homestead property tax refund purposes, and specifically whether the Kansas expensing deduction can be used to reduce a claimant's income.

The definition of "income" for the purpose of the homestead property tax refund claims is found in K.S.A. 4502. The statute begins by stating:

> (a) "Income" means the sum of adjusted gross income under the Kansas income tax act . . ."

The instructions for the Kansas Homestead Claim form, Line 4, state, "If you file a Kansas income tax return, enter in the first space your adjusted gross income from line 3 of your Form K-40 (adding back any net operating loss or net capital losses)."

On the Kansas income tax return, Form K-40, line 1 is "Federal adjusted gross income" from the taxpayer's federal return. Line 2 is "Modifications" from Kansas Schedule S, Line A21. Line 3 is "Kansas adjusted gross income", which is the result of adding or subtracting Line 2 to or from Line 1.

On Schedule S, modifications are listed on Part A. Addition modifications are listed on lines A1 through A7. Subtraction modifications are listed on lines A8 through A20. One of the subtraction modifications, on line A18, is shown as "Kansas expensing deduction".

Although the Kansas expensing deduction is shown as a modification on Schedule S, Part A, it is not a modification contained in K.S.A. 79-32, 117, and so it cannot be used in the calculation of income for homestead property tax refund purposes.

Under the Kansas income tax act, the term "adjusted gross income" is defined in K.S.A. 79-32,117. Subsection (a) of the statute provides:

> (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.

Specific addition modifications are found in subsection (b) of the statute. Specific subtraction modifications are found in subsection (c) of the statute.

The Kansas expensing deduction is found in K.S.A. 79-32,143a. The statute provides, in part, that "a taxpayer may elect to take an expense deduction from Kansas net income tax." The term "Kansas net income" is synonymous with "Kansas adjusted gross income", and the Department interprets "Kansas net income" as meaning "Kansas adjusted gross income".

The expensing deduction is claimed against Kansas adjusted gross income for Kansas income tax purposes, but it is not a modification from federal adjusted gross income as set forth in K.S.A. 79-32,117.

Because the Kansas expensing deduction cannot be subtracted from federal adjusted gross income in computing Kansas adjusted gross income for purposes of the homestead property tax refund, the instructions for the Kansas Homestead Claim form, Line 4, which state, "If you file a Kansas income tax return, enter in the first space your adjusted gross income from line 3 of your Form K-40 (adding back any net operating loss or net capital losses)" are incomplete. In addition to adding back any net operating loss or net capital losses the claimant must also "add back" the amount of the Kansas expensing deduction in determining Kansas adjusted gross income for purposes of the homestead property tax refund. This "add back" corrects the amount shown on Line 3 of Kansas Form K-40 to be Kansas adjusted gross income as it is defined under the Kansas income tax act and for purposes of Kansas homestead property tax refunds.

It should be noted the manner in which the expensing deduction is treated for homestead property tax refund purposes has no effect on the calculation of a taxpayer's income tax liability.

Taxpayer Assistance

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

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