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NOTICE 15-11

SUBTRACTION MODIFICATION CHANGED TO EXCLUDE GUARANTEED PAYMENTS (JULY 1, 2015)

During the 2015 Legislative Session Senate Substitute for House Bill 2109 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 reduces the amount of the subtraction modification which can be claimed for net profit from business reported on federal Schedule C and on line 12 of the taxpayer's federal Form 1040.

The amended language, found in subsection (c)(xx) of K.S.A. 79-32,117, provides:

> (xx) For all taxable years beginning after December 31, 2012, the amount of any: (1) Net profit from business as determined under the federal internal revenue code and reported from schedule C and on line 12 of the taxpayer's form 1040 federal individual income tax return; (2) net income, *not including guaranteed payments as defined in section 707(c) of the federal internal revenue code and as reported to the taxpayer from federal schedule K-1, (form 1065-B), in box 9, code F or as reported to the taxpayer from federal schedule K-1, (form 1065) in box 4*, from rental real estate, royalties, partnerships, S corporations, estates, trusts, residual interest in real estate mortgage investment conduits and net farm rental as determined under the federal internal revenue code and reported from schedule E and on line 17 of the taxpayer's form 1040 federal individual income tax return; and (3) net farm profit as determined under the federal internal revenue code and reported from schedule F and on line 18 of the taxpayer's form 1040 federal income tax return; all to the extent included in the taxpayer's federal adjusted gross income. For purposes of this subsection, references to the federal form 1040 and federal schedule C, schedule E, and schedule F, shall be to such form and schedules as they existed for tax year 2011 and as revised thereafter by the internal revenue service.

Effective Date

Section 36 of Senate Substitute for House Bill 2109 provides, "This act shall take effect and be in force from and after its publication in the statute book." As a result, although the language of K.S.A. 79-32,117(c)(xx) indicates the subsection applies for all taxable years beginning after December 31, 2012, the changes made by Section 3 of Senate Substitute for House Bill 2109 are effective July 1, 2015. This means the changes are effective for tax year

2015 and later years, and are not retroactive. Amended returns for tax years 2013 and/or 2014 **do not** need to be filed regarding guaranteed payments.

Reporting on the K-40 Kansas Income Tax Return

The amendment made to K.S.A. 79-32,117(c)(xx) reduces the amount of the subtraction modification. However, for reporting purposes, the full amount of the subtraction modification should be shown on the K-40 Kansas individual income tax return. Then the amount of the guaranteed payment(s) will be included as an addition modification on Schedule S. The taxpayer's federal Schedule K-1 must be included when filing the Kansas return.

Taxpayer Assistance

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

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