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PERSONAL FINANCE

Do you know about the 2017 Kansas income tax rate changes?

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Throughout this year the Kansas legislature has been working to address the state of Kansas' budget deficit, which subsequently has created several headlines regarding school funding in Kansas. During this process, Gov. Sam Brownback also indicated he would not sign any legislation increasing Kansas income tax rates.

Therefore, the Kansas legislature created many proposals and had much debate on how best to address the deficit without increasing taxes. On June 6, however, the Kansas legislature overrode a veto by Brownback, effectively increasing Kansas income taxes. As a result, two significant changes were made to Kansas income taxes, both of which are retroactive to Jan. 1, 2017.

First, Kansas income tax rates on individuals have increased. The top individual Kansas tax rate was 4.6 percent for 2017. It is now 5.2 percent for 2017 and will be 5.7 percent for 2018 (as well as for future tax years). However, the state of Kansas has said it will not assess penalties and interest as a result of an underpayment of taxes due to these changes as long as the underpayment is rectified by April 17, 2018.

Second, Kansas law no longer exempts "flow-through" business income (i.e., sole proprietors, partnerships, S-Corps) from Kansas income tax. For the past several years, income generated from these business entities was generally not taxed by the state of Kansas.

However, this income is no longer exempt from Kansas income taxes. This is obviously a significant change to many small business owners who have elected to be taxed as an S-Corp.

Additionally, over the past several years, many Kansas companies already were electing to file as an S-Corp, and some S-Corps in the area moved from a neighboring state (i.e., Missouri) to Kansas simply for the state income tax advantages.

As a result of these business income tax changes occurring mid-way through the year, small business owners who have previously incurred a relatively modest Kansas income tax liability may be surprised at their 2017 tax liability.

Surprisingly, both tax changes were made retroactive to Jan. 1, 2017, and because the tax rate itself is higher (5.2 percent for 2017 versus what was anticipated to be 4.6 percent), taxpayers subject to Kansas income tax will generally need to make adjustments to their Kansas income tax payments.

To help address this issue, the state of Kansas has adjusted its tax withholding tables, which are used by employers to determine how much Kansas income tax to withhold from an employee's paycheck.

Therefore, employees who receive a W-2 at the end of the year should generally be "caught-up" without having to make additional changes (and you may have already noticed your take-home or net income decrease recently).

The updated withholding tables are available at https://ksrevenue.org/forms-btwh.html

Business owners (or those who do not receive a W-2) who were accustomed to paying very little Kansas income tax will need to begin making Kansas income tax withholding adjustments themselves. This is typically done by paying estimated income taxes on a quarterly basis. This may require the help of a tax preparer to begin the on-going process of paying quarterly estimated taxes, in addition to "catching-up" on quarterly estimated tax payments for 2017.

Keep in mind, the state of Kansas has said it will not assess penalties and interest as a result of an underpayment of taxes due to these changes as long as the underpayment is rectified by April 17, 2018.

For further information and to read the Kansas Department of Revenue's notice regarding these tax changes, please visit https://ksrevenue.org/taxnotices/notice17-02.pdf

Mark Howe serves as the Director of Financial Planning at Frontier Wealth Management, where he is responsible for the firm's financial planning department. Mark works closely with clients to provide a customized wealth management strategy, addressing the unique needs of each client. Mark creates and presents in-depth, tax-efficient cash-flow analyses, tax strategies, retirement planning projections and probabilities, gifting strategies, and estate planning concepts for clients.