



Posted on Wed, Jul. 25, 2012

Money Matters | Can you benefit from Kansas tax law changes?

By SANDI WEAVER

Members of the local chapter of the Financial Planning Association gathered in Lawrence to hear two distinguished government officials on two key topics: taxes and medical insurance.

Kansas Secretary of Revenue Nick Jordan brought us up-to-date on key changes in state tax law beginning in 2013, which are intended to spur growth in the state. If you pay personal income taxes to Kansas, you may be getting a welcome tax break! Currently there are three tax brackets. You pay 3.5% on the first \$30,000, 6.25% on the next \$30,000, and 6.45% on your income over \$60,000, assuming married filing joint. Those will be compressed into two brackets. You'll pay 3.0% on the first \$30,000, and 4.9% over that. Single taxpayers will pay 3% on the first \$15,000, and 4.9% on the excess.

Standard deductions for those filing married joint and head of household will increase from \$6,000 to \$9,000. Some tax credits and deductions will be scaled back: food sales tax rebates, adoption expenses, child and dependent care expenses, child day care expenses. For those receiving these, the benefit from the lower income tax rates will be reduced. The state sales tax was due to drop from 6.3% to 5.7% on July 1, 2013. That remains so.

A second major change is the exemption on income derived from small businesses. If you have a flow-through business entity such as a Subchapter S corporation, a limited liability company, a partnership, or a sole proprietorship, the non-wage income from your business will not be taxed in Kansas, if you're an individual. This includes farm income.

The exclusion applies only to non-wage business income on federal forms 1040 Schedule C, E, and F. For example, a Subchapter S corporation reports income, via a K-1 form, onto the owner's individual tax return. That is shown on the individual's form 1040 Schedule E, and will not be included in Kansas income for taxes. The salary for the owner is a separate figure on a W-2, and is included on page 1 of the federal 1040 return. That amount will still be included in Kansas income and thus taxed.

Who benefits? Residents in Kansas benefit from the lower income tax rates. Residents owning small businesses located in the state benefit from the exemption on non-wage income. Residents owning small businesses elsewhere will still pay taxes to the state where the business is, but not in Kansas if the source state's tax rate is lower. Missouri residents paying taxes to Kansas at the old 6.45% rate may see that drop since the highest Kansas rate will be 4.9% and Missouri's is 6%.

Sandy Praeger, the Kansas Insurance Commissioner, gave us an update on the state's efforts for the recently-upheld health care act. Unlike any other country, 85% of U.S. individuals get coverage through their employers. A change which impacts the other 15% is that individuals will no longer be denied coverage due to pre-existing conditions. Your premiums may be high, but you'll be able to at least buy insurance. You will be rated on your age, whether you use tobacco or not, geography, and family structure. If your income is below, or up to four times, the federal poverty level, tax credits and subsidies will be available to help you pay premiums and out-of-pocket costs. Individuals who do not buy coverage will pay a penalty.

Adult children up to age 26 may be covered on their parent's policy if they still qualify to be a dependent on their parent's tax return. A new pool for those at high-risk will become available at the federal level. Kansas still maintains their own state pool for those at high-risk. For small businesses who choose to offer coverage for employees, tax credits may be available. Kansas is still deciding whether to form a state exchange, which is an online marketplace where individuals and small employers will be able to buy insurance. If that is not implemented by January 2014, the federal government's exchange will be accessible at that time.

The Money Matters column is written by members of the Financial Planning Association of Greater Kansas City. Today: Sandi Weaver, a CPA, CFP at Financial Security Advisors, Prairie Village.

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