



## DRAFT MENTAL HEALTH TAX CREDIT- BILL NO. XXX

As proposed by community members to the Kansas Legislature

Kansas Legislature would create new income tax credits for graduates of mental health programs and their employers for tax years 2025 through 2030.

### **Mental Health Program Tax Credits**

The bill would allow employers whose principal business activity involves providing **mental health services** to receive a nonrefundable income tax credit beginning in tax year 2025 for tuition or certain program-specific course-fee reimbursements paid to a full-time “qualified employee,” as defined by the bill, who has graduated from an **accredited mental health undergraduate or graduate degree program, an associate of applied science degree program, or a career technical program**. This credit could be claimed if the qualified employee, within one year prior to or following the commencement of employment with a qualified employer, graduated from a qualified program. This credit would be capped at 50.0 percent of the total amount of tuition reimbursement paid and could be claimed each year, for up to the fourth year of employment with a qualified employer.

The bill would also create, beginning with tax year 2025, a nonrefundable tax credit for taxpayers for an amount equal to 10.0 percent of the compensation paid to qualified employees in each of the first five years of employment, not to exceed \$15,000 per year. The credits could not be carried forward. For the purposes of the bill, compensation would not include benefits or reimbursable expenses.

Additionally, the bill would create, beginning with tax year 2025, a nonrefundable tax credit for taxpayers who become qualified employees during the taxable year. Employees with income tax liability less than \$5,000 would be eligible to carry any unused credit forward for up to four additional tax years.

The bill would authorize the Secretary of Revenue to adopt rules and regulations to implement and administer the provisions of the bill. The Secretary of Revenue would be required to submit annual reports on the cost effectiveness of the program to the House Committee on Appropriations and the Senate Committee on Ways and Means, beginning with the 2025 Legislative Session.

No new tax credits would be issued or earned after tax year 2029.

### **Income Tax Credit**

For tax year 2025 and all tax years thereafter, the bill would authorize a tax credit to be claimed against:

- Kansas income tax liability;
- The privilege tax liability imposed upon any national banking association, state bank, trust company or savings and loan company pursuant to continuing law; or
- The premium tax liability imposed upon an insurance company imposed by continuing law.

### **Transferable Tax Credit**

The bill would allow a qualified investor who receives a tax credit but does not reasonably anticipate owing any such tax for the current taxable year to acquire a transferable tax credit, limited to the amount of the credit issued to the qualified investor. This tax credit could be transferred to any person and claimed as a credit against the recipient's Kansas tax liability in the same manner as the transferor, including carrying the tax credit forward. The tax credit could only be transferred one time and would have to be for the full amount of the tax credit but could not include any interest.

The taxpayer claiming such credit would be responsible for providing documentation verifying the acquisition to the Secretary of Revenue. The transferor of the credit would be required to provide the Director and the Secretary of Revenue with the name, address, TIN, and other information as required of each transfer recipient.

### **Credits Carried Forward**

The bill would allow any credit amount in excess of the taxpayer's tax liability to be carried forward as a credit against their subsequent year tax liability for up to 11 tax years. The tax credit would be applied first to the earliest years possible. Any unused tax credit amount would not be refunded to the taxpayer.

### **SB XXX (Mental Health Tax Credit Program)**

According to the fiscal note prepared by the Division of the Budget (DOB), the Department of Revenue (KDOR) estimates enactment of the bill would have the potential to reduce State General Fund (SGF) revenues by \$XX million per fiscal year for FY 2025 through FY 2030. KDOR estimates the annual reduction in receipts attributable to the credit for tuition reimbursements to be \$X.X million, the annual reduction in receipts attributable to the credit for compensation paid to qualified employees to be \$X.X million, and the annual reduction in receipts attributable to the credit for qualified employees to be \$X.X million.

KDOR indicates the change of applicable tax years will shift the reduction of revenues back by one fiscal year, resulting in a reduction of SGF revenues of \$X.X million per fiscal year for FY 2025 through FY 2030.

Be it enacted by the Legislature of the State of Kansas:

Section 1. As used in sections 1 through 4, and amendments thereto: (a)"Mental Health" means relating to providing services related to overall mental health of a person, whether for private. Public or not-for-profit organizations.

(b) " Compensation" means payments in the form of contract labor for which the payor is required to provide a federal tax form 1099 to the person paid, wages subject to withholding tax paid to a part-time employee or full-time employee, or salary or other remuneration. "Compensation" does not include employer-provided retirement, medical or healthcare benefits, reimbursement for travel, meals, lodging or any other expense.

(c) "Institution" means a state educational institution, municipal university, community college or technical college, as those terms are defined in K.S.A. 74-3201b, and amendments thereto, or an educational institution, municipal university, community college or technical college within the meaning of those terms as defined in K.S.A. 74-3201b, and amendments thereto, but located in or established under the laws of another state or any other public or private college or university that is accredited by a regional accrediting body, **the medical accreditation commission** .

(d) "Qualified employee" means any person newly employed on a full-time basis by or first contracting with a qualified employer on a fulltime basis on or after January 1, 2025, who has been awarded an undergraduate or graduate degree, or a technical degree or certificate from a qualified program by an institution.

(e) "Qualified employer" means a sole proprietorship, general partnership, limited partnership, limited liability company, corporation, not-for profit, other legally recognized business entity or public entity whose principal business activity involves the mental health sector.

(f) "Qualified program" means: (1) A program that has been accredited by the **mental health accreditation commission of the accreditation board for mental health, the medical program administration or a regional accrediting body and that awards an undergraduate or graduate degree; or (2) a program within the meaning of an associate of applied health science degree program or career technical education program, within the meaning of those programs as defined in K.S.A. 74-32,407, and amendments thereto, whether a state or out-of-state program that results in the awarding of a degree or certificate that prepares the graduate for gainful employment with a qualified employer.**

(g) "Tuition" means the amount paid for enrollment, program specific course fees and instruction in a qualified program that includes both amounts paid during participation in a qualified program or tuition debt upon completion of a qualified program. "Tuition" does not include the cost of books, fees, other than program specific course fees, or room and board.

(h) "Full Time Employee" means employees that work a minimum of 30 hours a week in the mental health sector.

Sec. 2. (a) For taxable years beginning after December 31, 2024, a taxpayer who is a qualified employer subject to the tax imposed under the provisions of the Kansas income tax act shall be allowed a credit against the tax for tuition reimbursed to a qualified employee.

(b) The credit may be claimed only if the qualified employee been awarded an undergraduate or graduate degree, or technical degree or certificate from a qualified program within one year prior to or following the commencement of employment with a qualified employer and may be claimed each year thereafter that the qualified employee remains employed up to the fourth year of employment.

(c) The credit shall be in an amount equal to 50% of the tuition reimbursed during the taxable year for which the credit is claimed to a qualified employee, except that in no event shall the credit exceed 50% of the average annual amount paid by a qualified employee for enrollment and instruction in a qualified program, as determined by the secretary of revenue.

(d) The credit shall be applied against the taxpayer's income tax liability after all other credits allowed under the income tax act. The credit shall not be refundable and may not be carried forward.

Sec. 3. (a) For taxable years beginning after December 31, 2024, a taxpayer who is a qualified employer subject to the tax imposed under the provisions of the Kansas income tax act shall be allowed a credit against the tax for compensation paid during the taxable year to a qualified employee in the first through fifth consecutive years of employment. Except as otherwise provided, the credit shall be in an amount equal to 10% of the compensation paid.

(b) The credit shall not exceed \$15,000 annually for each qualified employee.

(c) The credit shall be applied against the taxpayer's income tax liability after all other credits allowed under the income tax act. The credit shall not be refundable and may not be carried forward.

(d) No credit shall be claimed for compensation paid to a qualified employee after the fifth year of employment of the qualified employee.

Sec. 4. (a) For taxable years beginning after December 31, 2024, a taxpayer who becomes a qualified employee during the taxable year shall be allowed a credit against the tax imposed under the provisions of the Kansas income tax act in an amount equal to \$5,000. The credit shall be deducted from the taxpayer's income tax liability for the taxable year in which the taxpayer is or has been a qualified employee and may be claimed each year the taxpayer achieves the status of a qualified employee for the four taxable years succeeding the taxable year in which the credit was first allowed.

(b) If the amount of the credit allowed a qualified employee is greater than the qualified employee's income tax liability for the taxable year in which the credit is allowed, the amount of the credit which exceeds the tax liability may be carried over for deduction from the qualified employee's income tax liability in the next succeeding taxable year or years, except that the tax credit may not be carried over for deduction after the fourth taxable year succeeding the taxable year in which the credit was first allowed.

{New} Sec. 5. (a) The secretary of revenue may adopt rules and regulations necessary or convenient for the implementation and administration of sections 1 through 4, and amendments thereto.

(b) The secretary of revenue shall annually submit a written report to the house committee on appropriations and to the senate committee on ways and means beginning with the 2025 legislative session. The report shall contain information regarding the cost and effectiveness of the tax credit program described in sections 1 through 4, and amendments thereto. The secretary also may include in the report any recommendations for changes to law necessary to implement sections 1 through 4, and amendments thereto.

Sec. 6. No new credits shall be issued or may be earned under the provisions of sections 1 through 4, and amendments thereto, after December 31, 2029