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MULTISTATE INCOME/FRANCHISE TAX

Kansas enacts single sales factor apportionment and market-based sourcing

Tax Alert

Overview

On April 24, 2025, Kansas House Bill 2231 ("H.B. 2231") was enacted into law and is effective for tax years beginning on or after January 1, 2027. H.B. 2231 switches Kansas from an equally weighted 3 factor apportionment formula to a single sales factor method for apportioning business income. The law also adopts market-based sourcing for sales other than tangible personal property. H.B. 2231 further provides for a deferred tax deduction and a decrease in corporate income tax rates if certain conditions are met.

This Tax Alert summarizes some of the provisions in H.B. 2231.

Adoption of single sales factor apportionment and market-based sourcing

- H.B. 2231 moves the state from an equally weighted three factor apportionment formula to a single sales factor apportionment formula providing that all business income shall be apportioned to Kansas by multiplying the business income by the sales factor for tax years commencing on or after January 1, 2027.
- H.B. 2231 also amends K.S.A. 79-1129 to provide that the apportionment of financial institution income is by the receipts factor only for tax years commencing on or after January 1, 2027.
- H.B. 2231 moves the state from a cost of performance sourcing methodology to a market-based sourcing methodology for sales other than sales of tangible personal property for tax years commencing after December 31, 2026. The bill specifies when the taxpayer's market for the sales is in the state for sales of services and intangible property.
- H.B. 2231 provides an exception to market sourcing though for certain communications companies, stating that "a communications service provider may assign sales, other than sales of tangible personal property, to this state pursuant to this section as it applied to tax years commencing before January 1, 2027."

- H.B. 2231 further repeals the state's specialized apportionment formula based on miles applicable to railroads and interstate motor carriers for tax years commencing on or after January 1, 2027.

Contingent corporate income tax rate reduction

- H.B. 2231 includes a provision for reducing the corporation income tax rate in the future contingent upon certain conditions being met.
- If such conditions are met, the secretary shall publish by October 1, 2028, the new income tax rates to take effect for all taxable years commencing after December 31, 2028. The rate reductions shall remain in effect unless further reduced.
- Note that a previously enacted bill, Senate Bill 269, provides for phasing in tax rate reductions for individual income taxes and the corporate surtax contingent on meeting certain budgetary goals.

Deferred tax deduction

- H.B. 2231 further provides a deferred tax deduction for certain publicly traded companies if there is an increase in the taxpayer's net deferred tax liability or a decrease in their net deferred tax asset.
- A taxpayer is entitled to a deferred tax impact deduction, equal to the annual deferred tax deduction, to offset the increase in net deferred tax liability or decrease in net deferred tax asset, or aggregate change from a net deferred tax asset to a net deferred tax liability resulting from the adoption of single sales factor apportionment, calculated as of the end of the tax year before 2025.
- Any deferred tax deduction not claimed on a return shall be carried forward and applied as a deduction for future tax years until fully utilized.
- A taxpayer must file a statement with the secretary by July 1, 2027 to properly claim the deferred tax deduction.

Get in Touch

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