Testimony Comparing SB 377 & HB2284

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Background and Summary:

I have served as the chief academic adviser to the Governor's Tax Reform Council starting in 2019. This testimony addresses the provisions of HB 2284 in comparison with SB 377. HB2284 includes the exemption of social security; indexing the standard deduction for income taxes; sales tax relief including eliminating the state food sales tax; increasing the residential property tax exemption and indexing it.

This testimony is **Positive** on Senate Bill 377 because it provides broad based income, sales and property tax relief while providing targeted relief for older adults and households with children. That said, I do have some concerns about phasing out the income tax on Social Security and the overall fiscal note of the bill.

This testimony is **Negative** on House Bill 2284 because the fiscal note is higher, and I am negative on the flat tax.

Here, I turn my attention to specific provisions of HB 2284.

Positive: Expanded Sales Tax Relief

Eliminating the sales tax on groceries as soon as possible is an excellent policy decision because it eliminates a regressive tax.

Positive: Increasing the School Levy Property Tax Exemption

This is a good idea given the rise in property values. I am **Neutral** on indexing (more below).

Neutral: Indexing the Standard Deduction

Indexing matters in times of high inflation. In **Figure 1** below, I graph the percentage change in average hourly wages of non-production workers and the percentage change in the Consumer Price index. Indexing the standard deduction to the CPI matters in times of high inflation (like we had in 2022—mid 2023). During that time period, wages were growing more slowly than inflation. Indexing the standard deduction to inflation would mean that people would not be paying additional taxes when their real wages are declining. That said, in a time of stable prices, indexing to inflation (or average residential property values) will not appreciably change the real value of taxes paid.

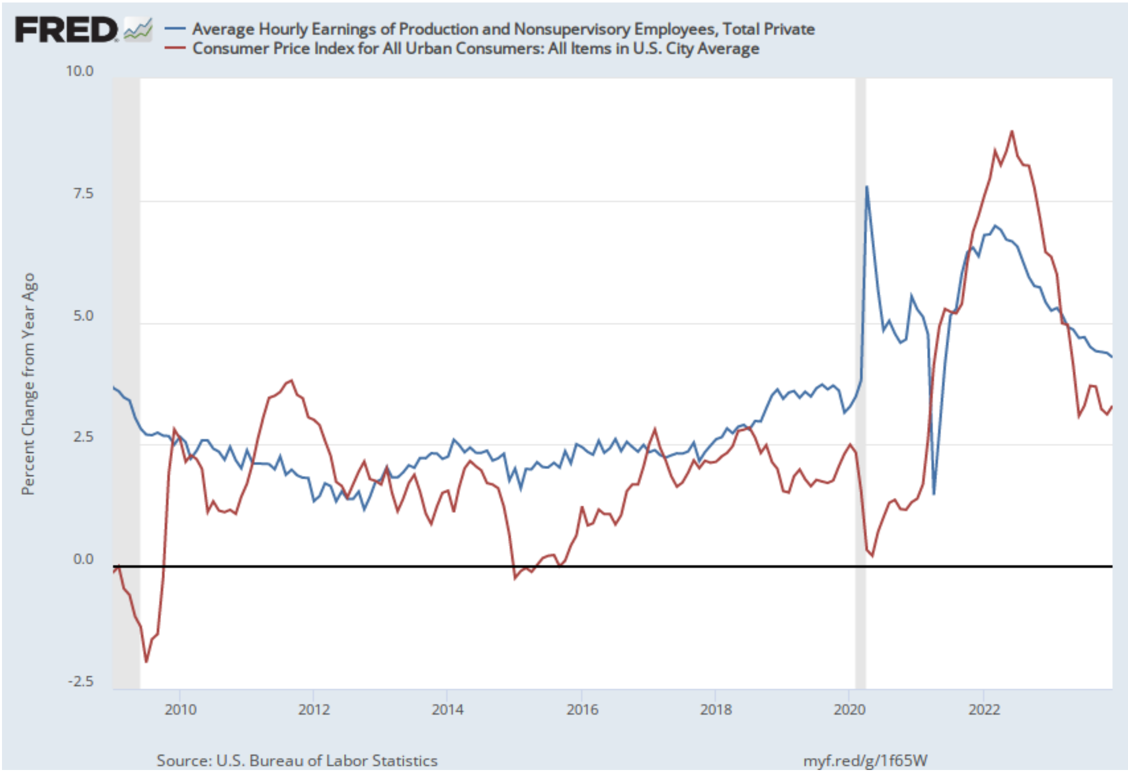


Figure 1: Percentage change in CPI and Percentage Change in Real Wages

In my estimation, indexing these measures is akin to fighting last year's battles and needlessly complicates the tax code. In the past decade it would have resulted in higher taxes in some years.

Neutral: Social Security State Income Tax Elimination

As I mentioned previously, the tax cliff needs to be addressed. The fiscal note on this is rather high at about $128 million.

Negative: Providing an Income Tax Rate of 5.25%

First, the flat tax benefits the very top earners in Kansas compared to those with average income or below. Figure 2 shows the average tax cut by taxable income bracket for married couples filing jointly. The median married household has $102,000 in KAGI. Under HB 2284, they will receive approximately an average of $200 tax cut. The richest households will receive an average of $3000 tax cut (15 times those at the median). Figure 3 compares the distribution of taxpayers to the distribution of tax cuts. 68% of taxpayers below $120,000 in income will receive only 18% of the flat tax cut while 31% of those above $120,000 will receive 82% of the flat tax cut. Clearly, the flat tax cut favors the richest taxpayers in the state.

Figure 2: Average Tax Cut by Income Bracket, Married Filing Jointly. Brackets in Thousands of Dollars, Kansas Taxable Income

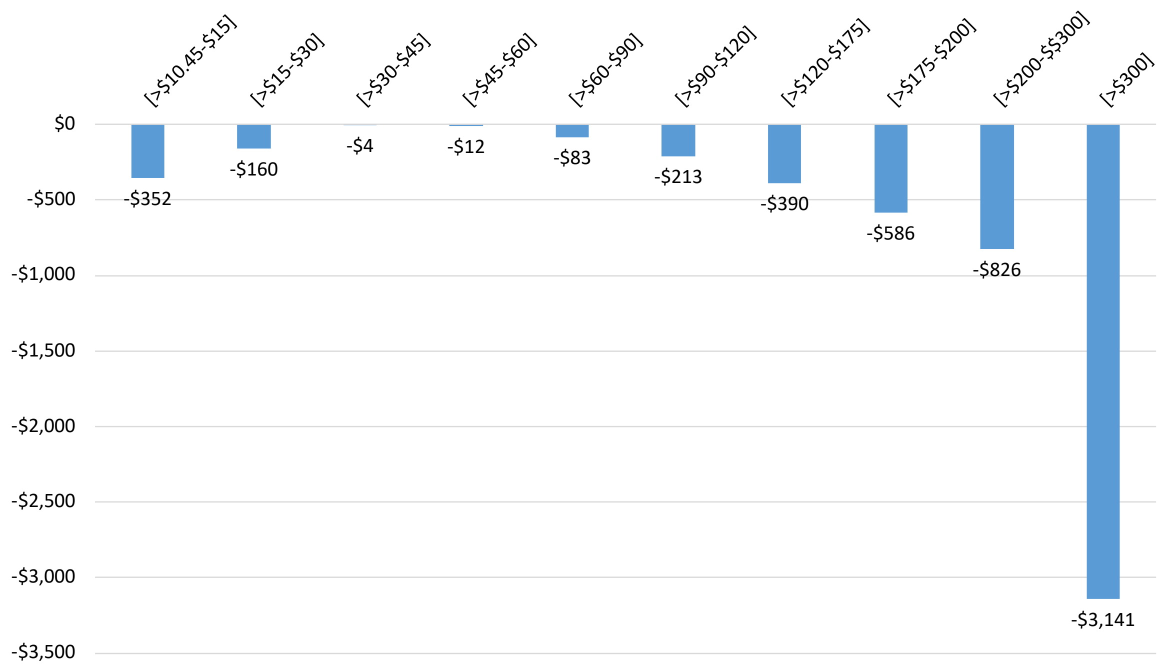
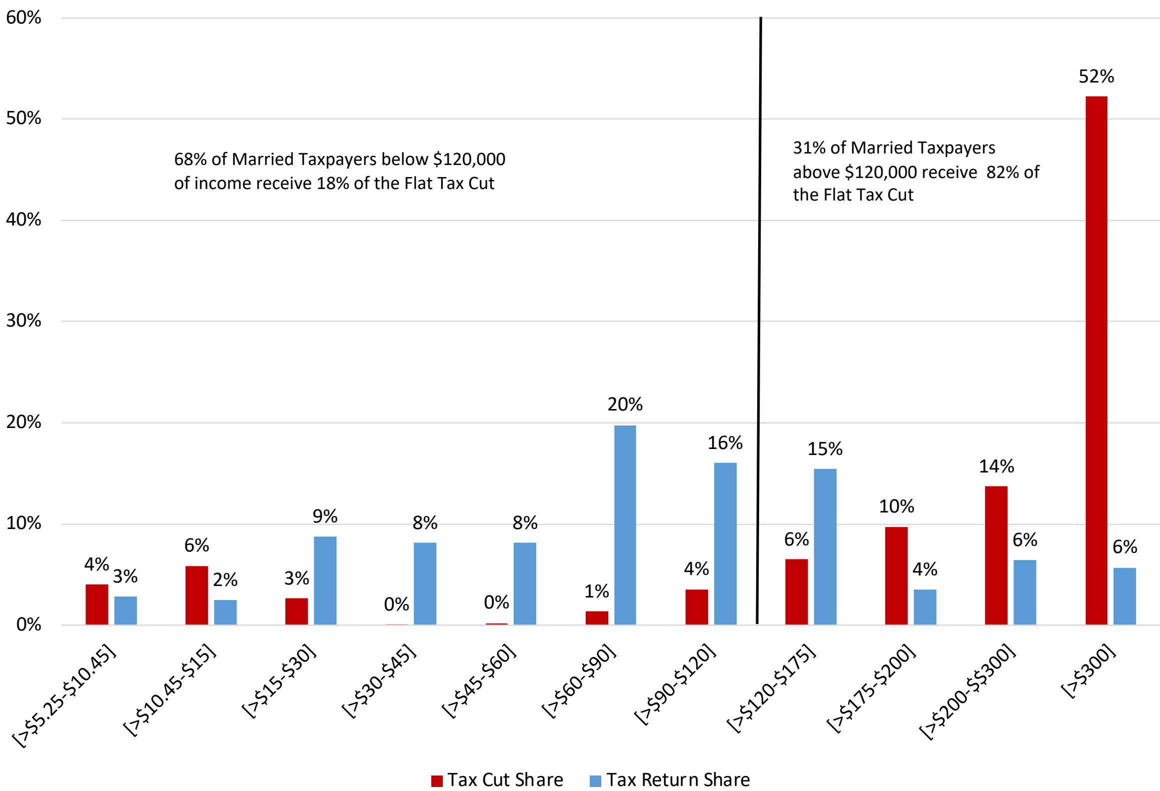


Figure 3: Distribution of Tax Returns and Tax Cuts by Income, Married Filing Jointly



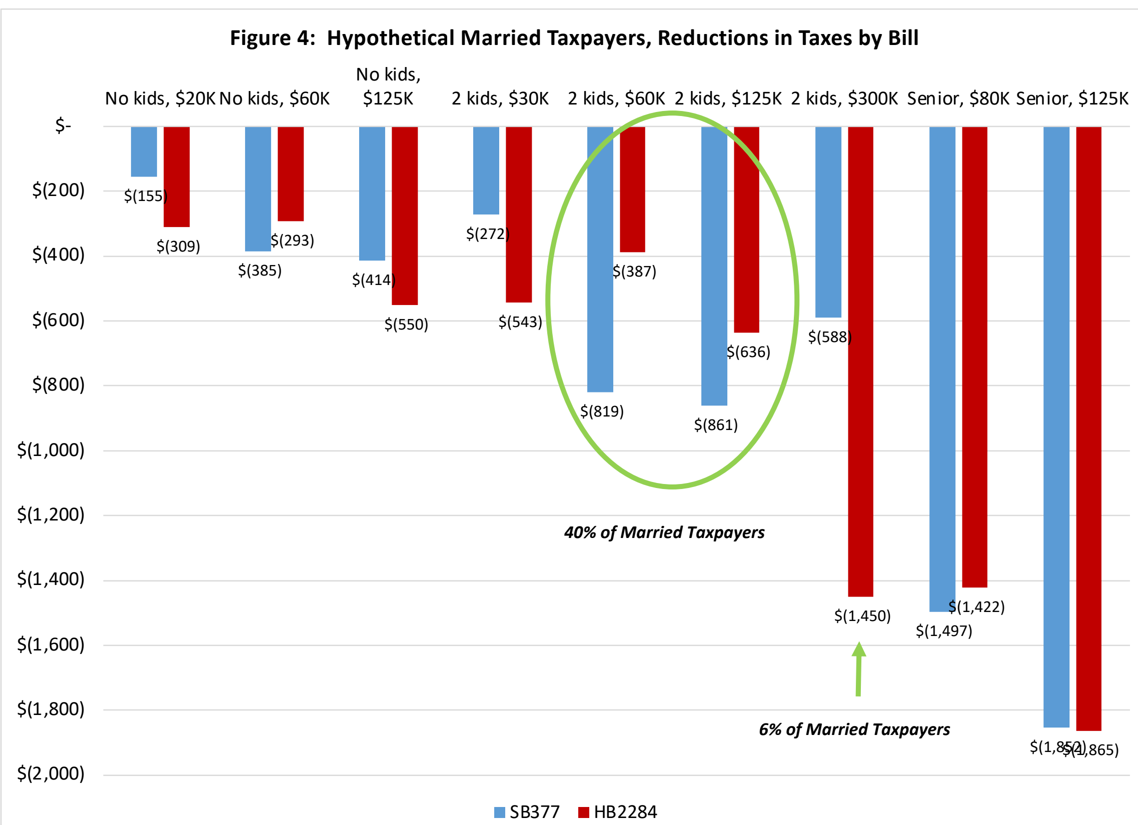
Second, HB 2284 is expensive. In FY 2026, the bill reduces the state general fund by $559 million. That grows to $635 million in FY2029. SB 377 reduces the state general fund by $300 million in FY2026 and remains at that level through FY2029.

Hypothetical Taxpayers

We created eight hypothetical households to show the impact of this package of tax reductions on the total tax owed. We assume every household owns a house worth more than $100,000. Our households have the following characteristics:

1. Married, no children, $20,000 in gross income—approximately the poverty line.
2. Married, no children, $60,000 in gross income.
3. Married, no children, $125,000 in gross income.
4. Married, 2 children, one in diapers, both children in daycare, $30,000 in gross income—approximately the poverty line.
5. Married, 2 children, one in diapers, both children in daycare, $60,000 in gross income.
6. Married, 2 children, one in diapers, both children in daycare, $125,000 in gross income.
7. Senior, no children, $80,000 in gross income.
8. Senior, no children, $125,000 in gross income.

Figure 4 shows the tax cuts accruing to the hypothetical married households in Kansas. The tax cuts benefit higher income, senior households. Households with two children requiring childcare and one requiring diapers, receive over $800 in tax cuts under SB377 but half as much if they have $60,000 in income. Households without children receive about $400 in tax cuts. However,



families at the poverty line, with $20,000 in income with no children or $30,000 in income with 2 children receive $150 more in tax cuts under HB2284. A household earning $300,000 with 2 children receives $1450 in tax cuts under HB2284, 2.5 times what SB377 provides.

Here are why the two bills differ:

1. SB377 provides more sales tax relief due to eliminating the sales tax on feminine hygiene and diapers.

2. SB377 provides more income tax relief to families with children in the middle of the distribution because of the $100 standard deduction combined with the child and dependent care tax credit. ***It is important to note that this is where we find the majority of taxpayers***.

3. HB2284 provides about $150 more in tax relief for the lowest income taxpayers than SB377. However, it also provides the bulk income tax relief to the highest earning households. ***It is important to note that this is where we find a much smaller number of taxpayers***.

Conclusion

As I mentioned previously, there is no evidence that tax cuts like the flat tax or the Brownback tax cut contribute to economic growth. Many economists have analyzed the economic impact of the Brownback tax cuts. DeBacker, Heim, Tramnath and Ross (2019) found no evidence that the Brownback tax cuts resulted in increased economic activity. Turner and Blagg (2018) examined whether the tax cuts resulted in increases in employment compared to states that did not enact tax cuts. They found that tax cuts did not result in any net increase in private-sector employment. Tax and budget policy analysts from groups as diverse as the Tax Foundation and the Center[1] for Budget and Policy Priorities[2] agreed that the "Tax Experiment" in Kansas was a failure in public policy. Furthermore, these tax cuts put Kansas' improved credit rating at risk, ultimately increasing debt service costs and costing Kansans more money.

References:

Jason DeBacker, Bradley T. Heim, Shanthi P. Ramnath, Justin M. Ross, "The impact of state taxes on pass-through businesses: Evidence from the 2012 Kansas income tax reform," in *Journal of Public Economics* 174 (June 2019): 53-75. https://doi.org/10.1016/j.jpubeco.2019.03.008 5

Tracy M. Turner and Brandon Blagg, "The Short-term Effects of the Kansas Income Tax Cuts on Employment Growth," in *Public Finance Review* 46; 6 (November 2018): 1024-1043. https://doi.org/10.1177/1091142117699274

[1] https://taxfoundation.org/every-tax-cut-kansas/

[2] https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax