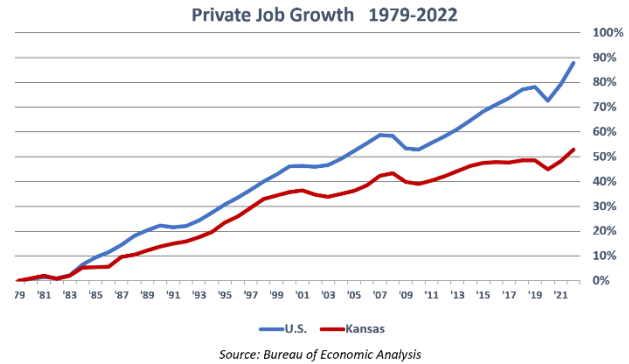


Chairperson Tyson and Members of the Committee,

We appreciate this opportunity to provide written testimony supporting SB 539, which provides much-needed income and property tax savings.

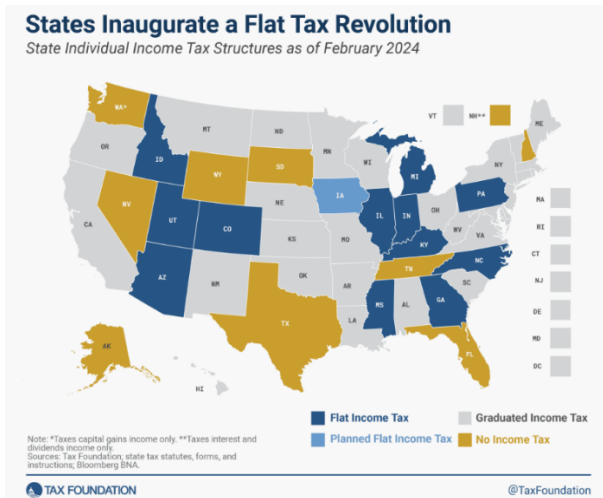
The economic data clearly shows the need for tax relief:

- Many states already have lower income tax rates than Kansas, and others are cutting rates.
- Kansas is in its fifth straight decade of economic stagnation and is falling farther behind national average increases in job growth, population, and economic activity (GDP).
- Kansas had the worst record in 2023 among bordering states on domestic migration, as more U.S. residents moved out of state than in, according to data from the [U. S. Census](#).



States with lower income taxes have superior economic growth, and that is desperately needed in Kansas. Private-sector job growth in Kansas was ranked #44 between 1998 and 2022. December 2023 private-sector jobs were just 0.3% higher than the year before, which also is far below the national average.

The [Tax Foundation](#) reports that nine states have a flat tax rate of zero, twelve others have flat tax rates above zero, and Iowa passed legislation that will lead to a flat tax rate. Some are traditional 'blue' states – Colorado, Michigan, Illinois, Pennsylvania, and Washington.



Kansas can also easily afford the tax relief in SB 539. The table below applies the fiscal note for SB 539 to a budget profile provided by Kansas Legislative Research Department based on HB 2284, substituting the revenue impact and the expense impact of offsetting the residential property tax savings. The state will still have \$4.8 billion in total reserves between the State General Fund and the Rainy Day Fundj.

State General Fund Outlook					
Decription	Actual FY 2023	Approved FY 2024	Estimated FY 2025	Estimated FY 2026	Estimated FY 2027
Beginning Balance	\$ 1,834.5	\$ 2,410.4	\$ 2,823.7	\$ 3,084.6	\$ 3,115.7
Revenue					
Consensus Revenue	\$ 9,282.8	\$ 10,283.5	\$ 10,257.3	\$ 10,185.9	\$ 10,381.4
Released Encumbrances	\$ 20.3				
Do not transfer LAVTR, CCRS, SCCH	\$ -			\$ 171.3	\$ 173.6
Impact of flat tax plan in SB 539	\$ -	\$ -	\$ (377.1)	\$ (327.5)	\$ (407.8)
Total revenue this year	\$ 9,303.1	\$ 10,283.5	\$ 9,880.2	\$ 10,029.7	\$ 10,147.2
Expenditures	\$ 8,727.2	\$ 9,471.6	\$ 9,870.2	\$ 9,619.2	\$ 9,998.6
Reappropriations		\$ 551.3	\$ (551.3)		
Human Services caseloads		\$ (55.5)	\$ 45.9	\$ 105.0	\$ 110.0
School Finance		\$ (97.2)	\$ 192.3	\$ 208.8	\$ 125.0
School Funding to offset property tax cut			\$ 62.1	\$ 65.6	\$ 69.2
Total adj expenditures	\$ 8,727.2	\$ 9,870.2	\$ 9,619.2	\$ 9,998.6	\$ 10,302.8
Ending Balance	\$ 2,410.4	\$ 2,823.7	\$ 3,084.6	\$ 3,115.7	\$ 2,960.1
as % of expenditures	27.6%	28.6%	32.1%	31.2%	28.7%
Budget Stabilization Fund	\$ 1,610.3	\$ 1,685.3	\$ 1,757.1	\$ 1,809.8	\$ 1,855.0
Total Reserves	\$ 4,020.7	\$ 4,509.0	\$ 4,841.7	\$ 4,925.5	\$ 4,815.1

Source: Kansas Legislative Research Department on 11/30/23 and updated with KLRD calculations on SB 539; Consensus includes tax adjustments for current law as of 11/9/23 and statutory transfers FY 2026-2028.

Low-income taxpayers fare the best under SB 539

SB 539 addresses one of the major objections to the previous flat tax proposals, as its design gives the most significant dollar amount of tax savings to those with low incomes and about the same amount to middle-income taxpayers as those with high incomes.

Since the flat rate of 5.7% is the same as the current top marginal rate, the savings cap out at \$168 for married couples with two children and adjusted gross income above \$80,000 and at \$70 for individuals with AGI above \$40,000. A couple with two children and \$40,000 AGI will save \$485 the first year, and an individual with \$20,000 AGI will save \$157 (both exclusive any earned income tax credit). Each example assumes the taxpayer takes the standard deduction and doesn't have Social Security income.

Tax Savings Comparing Governor Kelly's Plan to SB 539 Tax Year 2024							
Adjusted Gr Income	Married, Two Kids		Married, No Kids		Adjusted Gr Income	Single	
	Kelly Plan	Flat Tax	Kelly Plan	Flat Tax		Kelly Plan	Flat Tax
\$40,000	\$62	\$485	\$62	\$283	\$20,000	\$47	\$157
\$80,000	\$114	\$168	\$114	\$83	\$40,000	\$86	\$70
\$100,000	\$114	\$168	\$114	\$83	\$50,000	\$86	\$70
\$200,000	\$114	\$168	\$114	\$83	\$100,000	\$86	\$70
\$1,000,000	\$114	\$168	\$114	\$83	\$500,000	\$86	\$70

The savings for middle-income households and individual taxpayers increases significantly beginning in tax year 2025 because deductions are increased for inflation and the flat rate declines. See Appendices B and C for more information.

Everyone pays the same rate on taxable income, but exempting the first \$22,000 married and \$11,000 single means that the effective tax rates are still progressive, as shown in the table below. The effective tax rate is tax liability divided by adjusted gross income.

Effective Tax Rates SB 539			Tax Year 2024	
Adjusted Gr Income	Married 2 Kids	Married No Kids	Adjusted Gr Income	Single
\$40,000	0.6%	1.4%	\$20,000	1.4%
\$80,000	3.1%	3.6%	\$40,000	3.6%
\$100,000	3.6%	4.0%	\$50,000	4.0%
\$200,000	4.7%	4.8%	\$100,000	4.8%
\$1,000,000	5.5%	5.5%	\$500,000	5.5%

The income exemption also exempts many low-income taxpayers from paying any income tax.

A couple with two children with adjusted gross income below \$36,000 will not pay any income tax, but they would pay \$589 under the current tax system. A single taxpayer will not pay tax on the first \$15,000 of AGI, whereas they would pay \$287 currently (not counting any earned income credit in both cases).

The standard deduction, personal exemptions, and dependent exemptions are indexed for inflation beginning in tax year 2025. That nearly eliminates having to pay higher taxes because of inflation.

For example, a couple with two children whose AGI increases 3% - from \$50,000 to \$51,500 - has the entire increase taxed at 5.25% in the current system, resulting in a 7.2% tax increase. If inflation was 3%, the couple's purchasing power doesn't change, but they still get a tax increase.

Impact of Inflation Tax						
Tax Status	2024 AGI	2025 AGI	Percent Change	2024 Tax	2025 Tax	Percent Change
Married, 2 Current	\$50,000	\$51,500	3.0%	\$1,088	\$1,166	7.2%
Married, 2 SB 539	\$50,000	\$51,500	3.0%	\$798	\$815	2.1%
Married, 0 Current	\$100,000	\$103,000	3.0%	\$3,816	\$3,987	4.5%
Married, 0 SB 539	\$100,000	\$103,000	3.0%	\$3,648	\$3,724	2.1%
Single, Current	\$50,000	\$51,500	3.0%	\$2,065	\$2,151	4.2%
Single, SB 539	\$50,000	\$51,500	3.0%	\$1,995	\$2,037	2.1%
Single, Current	\$100,000	\$103,000	3.0%	\$4,915	\$5,086	3.5%
Single, SB 539	\$100,000	\$103,000	3.0%	\$4,845	\$4,947	2.1%

However, under SB 539, only \$420 of the pay increase is taxable because they get higher inflation-adjusted deductions for the standard deduction, personal exemption, and the amount exempt from taxation. In this case, a 3% pay increase only results in a 2.1% tax increase, leaving the couple with a slight increase in buying power.

Put differently, the State of Kansas profits from inflation with a three-tier tax system that isn't indexed for inflation. But the taxpayer is better off in an inflation-indexed flat rate system.

See Appendix A for additional savings examples for various income levels for tax year 2024. Appendix B shows the impact of inflation with the lower flat rate for 2025, and Appendix C shows the same for the tax year 2026.

Conclusion: SB 539 is a compromise bill that especially helps low-income taxpayers

SB 539 is a smart compromise bill.

- The overall savings is less than the previous flat tax but much greater than Gov. Kelly’s plan.
- Low-income taxpayers get the most significant dollar savings.
- Middle-income taxpayers get about the same savings over time as the highest incomes.
- The single-rate system in SB 539 has progressive, effective tax rates, meaning those who earn the most pay the highest percentage of tax on their income.
- The single-rate system in SB 539 eliminates the inflation tax in the current 3-rate system.

SB 539 is also easily affordable from a budgetary standpoint.

Retaining the current system or implementing Governor Kelly’s proposal, however, benefits government. The Kelly plan gives very little tax relief, and it retains the inflation tax.

We encourage the Committee to approve SB 539 and we thank you for your consideration.

Appendix A – 2024 Tax Simulations

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2024									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gr Income	40,000	40,000	40,000	40,000	40,000	40,000	20,000	20,000	20,000
Standard Deduct.	(8,000)	(10,000)	(8,000)	(8,000)	(10,000)	(8,000)	(3,500)	(5,000)	(4,000)
Personal Exemp.	(9,000)	(9,000)	(6,000)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Exempt	23,000	21,000	26,000	27,500	25,500	32,000	14,250	12,750	16,000
Taxable Income	0	0	(22,000)	0	0	(22,000)	0	0	(11,000)
Taxable Income	23,000	21,000	4,000	27,500	25,500	10,000	14,250	12,750	5,000
Flat tax 5.7%			228			570			285
Tax Current / Kelly	713	651		853	791		442	395	
Effective Tax Rate	1.8%	1.6%	0.6%	2.1%	2.0%	1.4%	2.2%	2.0%	1.4%
Income tax savings		62	485		62	283		47	157

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2024									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gr Income	80,000	80,000	80,000	80,000	80,000	80,000	40,000	40,000	40,000
Standard Deduct.	(8,000)	(10,000)	(8,000)	(8,000)	(10,000)	(8,000)	(3,500)	(5,000)	(4,000)
Personal Exemp.	(9,000)	(9,000)	(6,000)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Exempt	63,000	61,000	66,000	67,500	65,500	72,000	34,250	32,750	36,000
Taxable Income	0	0	(22,000)	0	0	(22,000)	0	0	(11,000)
Taxable Income	63,000	61,000	44,000	67,500	65,500	50,000	34,250	32,750	25,000
Flat tax 5.7%			2,508			2,850			1,425
Tax Current / Kelly	2,676	2,562		2,933	2,819		1,495	1,410	
Effective Tax Rate	3.3%	3.2%	3.1%	3.7%	3.5%	3.6%	3.7%	3.5%	3.6%
Income tax savings		114	168		114	83		86	70

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2024									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gr Income	200,000	200,000	200,000	200,000	200,000	200,000	100,000	100,000	100,000
Standard Deduct.	(8,000)	(10,000)	(8,000)	(8,000)	(10,000)	(8,000)	(3,500)	(5,000)	(4,000)
Personal Exemp.	(9,000)	(9,000)	(9,000)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Exempt	183,000	181,000	183,000	187,500	185,500	192,000	94,250	92,750	96,000
Taxable Income	0	0	(22,000)	0	0	(22,000)	0	0	(11,000)
Taxable Income	183,000	181,000	161,000	187,500	185,500	170,000	94,250	92,750	85,000
Flat tax 5.7%			9,177			9,690			4,845
Tax Current / Kelly	9,516	9,402		9,773	9,659		4,915	4,830	
Effective Tax Rate	4.8%	4.7%	4.6%	4.9%	4.8%	4.8%	4.9%	4.8%	4.8%
Income tax savings		114	339		114	83		86	70

Appendix B – 2025 Tax Simulations

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2025									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gr Income	41,200	41,200	41,200	41,200	41,200	41,200	20,600	20,600	20,600
Standard Deduct.	(8,000)	(10,000)	(8,240)	(8,000)	(10,000)	(8,240)	(3,500)	(5,000)	(4,120)
Personal Exemp.	(9,000)	(9,000)	(6,180)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Exempt	24,200	22,200	26,780	28,700	26,700	32,960	14,850	13,350	16,480
Taxable Income	0	0	(22,660)	0	0	(22,660)	0	0	(11,330)
Taxable Income	24,200	22,200	4,120	28,700	26,700	10,300	14,850	13,350	5,150
Flat tax 5.65%			233			582			291
Tax Current / Kelly	750	688		890	828		460	414	
Effective Tax Rate	1.8%	1.7%	0.6%	2.2%	2.0%	1.4%	2.2%	2.0%	1.4%
Income tax savings		62	517		62	308		47	169

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2025									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gr Income	82,400	82,400	82,400	82,400	82,400	82,400	41,200	41,200	41,200
Standard Deduct.	(8,000)	(10,000)	(8,240)	(8,000)	(10,000)	(8,240)	(3,500)	(5,000)	(4,120)
Personal Exemp.	(9,000)	(9,000)	(6,180)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Exempt	65,400	63,400	67,980	69,900	67,900	74,160	35,450	33,950	37,080
Taxable Income	0	0	(22,660)	0	0	(22,660)	0	0	(11,330)
Taxable Income	65,400	63,400	45,320	69,900	67,900	51,500	35,450	33,950	25,750
Flat tax 5.65%			2,561			2,910			1,455
Tax Current / Kelly	2,813	2,699		3,069	2,955		1,564	1,478	
Effective Tax Rate	3.4%	3.3%	3.1%	3.7%	3.6%	3.5%	3.8%	3.6%	3.5%
Income tax savings		114	252		114	160		86	109

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2025									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gr Income	206,000	206,000	206,000	206,000	206,000	206,000	103,000	103,000	103,000
Standard Deduct.	(8,000)	(10,000)	(8,240)	(8,000)	(10,000)	(8,240)	(3,500)	(5,000)	(4,120)
Personal Exemp.	(9,000)	(9,000)	(9,270)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Exempt	189,000	187,000	188,490	193,500	191,500	197,760	97,250	95,750	98,880
Taxable Income	0	0	(22,660)	0	0	(22,660)	0	0	(11,330)
Taxable Income	189,000	187,000	165,830	193,500	191,500	175,100	97,250	95,750	87,550
Flat tax 5.65%			9,369			9,893			4,947
Tax Current / Kelly	9,858	9,744		10,115	10,001		5,086	5,001	
Effective Tax Rate	4.8%	4.7%	4.5%	4.9%	4.9%	4.8%	4.9%	4.9%	4.8%
Income tax savings		114	489		114	221		86	140

Appendix C – 2026 Tax Simulations

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2026									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gross Income	42,436	42,436	42,436	42,436	42,436	42,436	21,218	21,218	21,218
Standard Deduct.	(8,000)	(10,000)	(8,487)	(8,000)	(10,000)	(8,487)	(3,500)	(5,000)	(4,244)
Personal Exemp.	(9,000)	(9,000)	(6,365)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Adjusted Taxable Income	25,436	23,436	27,583	29,936	27,936	33,949	15,468	13,968	16,974
Income tax 5.6%	0	0	(23,340)	0	0	(23,340)	0	0	(11,670)
Effective Tax Rate	789	727	238	928	866	594	490	433	297
Percentage Tax Rate	1.9%	1.7%	0.6%	2.2%	2.0%	1.4%	2.3%	2.0%	1.4%
Percentage tax savings		62	551		62	334		57	193

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2026									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gross Income	84,872	84,872	84,872	84,872	84,872	84,872	42,436	42,436	42,436
Standard Deduct.	(8,000)	(10,000)	(8,487)	(8,000)	(10,000)	(8,487)	(3,500)	(5,000)	(4,244)
Personal Exemp.	(9,000)	(9,000)	(6,365)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Adjusted Taxable Income	67,872	65,872	70,019	72,372	70,372	76,385	36,686	35,186	38,192
Income tax 5.6%	0	0	(23,340)	0	0	(23,340)	0	0	(11,670)
Effective Tax Rate	2,954	2,840	2,614	3,210	3,096	2,971	1,634	1,549	1,485
Percentage Tax Rate	3.5%	3.3%	3.1%	3.8%	3.6%	3.5%	3.9%	3.6%	3.5%
Percentage tax savings		114	340		114	240		86	149

SB 539 Income Tax Comparison with 3% annual Inflation Tax Year 2026									
Description	Married, Three Kids			Married, No Kids			Single		
	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax	Current Law	Kelly Plan	Flat Tax
Adjusted Gross Income	212,180	212,180	212,180	212,180	212,180	212,180	106,090	106,090	106,090
Standard Deduct.	(8,000)	(10,000)	(8,487)	(8,000)	(10,000)	(8,487)	(3,500)	(5,000)	(4,244)
Personal Exemp.	(9,000)	(9,000)	(9,548)	(4,500)	(4,500)	0	(2,250)	(2,250)	0
Adjusted Taxable Income	195,180	193,180	194,145	199,680	197,680	203,693	100,340	98,840	101,846
Income tax 5.6%	0	0	(23,340)	0	0	(23,340)	0	0	(11,670)
Effective Tax Rate	10,210	10,096	9,565	10,467	10,353	10,100	5,262	5,177	5,050
Percentage Tax Rate	4.8%	4.8%	4.5%	4.9%	4.9%	4.8%	5.0%	4.9%	4.8%
Percentage tax savings		114	645		114	367		86	212