

Tax Reform—Income, Property, and Food Sales Tax Reductions; House Sub. for SB 37

House Sub. for SB 37 makes various changes to income, sales, and property tax law. Specifically, the bill:

- Restructures individual income tax brackets and rates to provide for a two-bracket system;
- Exempts Social Security income from the individual income tax;
- Increases the standard deduction and personal exemption amounts;
- Reduces privilege tax rates;
- Abolishes the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund;
- Increases the amount of the appraised value of residential property exempt from the statewide uniform school finance levy and reduces the mill levy; and
- Accelerates the elimination of the state sales and compensating use tax rate on food and food ingredients and changes to the associated disposition of revenue.

The bill takes effect upon publication in the *Kansas Register*.

Individual Income Tax Brackets and Rates

The bill restructures the Kansas individual income tax brackets to a two-bracket system, beginning in tax year 2024. For married individuals filing jointly, taxable income of \$0 to \$46,000 is taxed at 5.2 percent, and taxable income of \$46,001 and above is taxed at 5.57 percent.

For all other filers, taxable income of \$0 to \$23,000 is taxed at 5.2 percent, and taxable income of \$23,001 and above is taxed at 5.57 percent.

Social Security Benefit Exemption

Beginning in tax year 2024, all Social Security benefits are exempted from Kansas income tax.

Standard Deduction and Personal Exemption Increases

The bill increases the standard deduction amounts from \$3,500 to \$3,605 for single filing status, \$8,000 to \$8,240 for married filing status, and \$6,000 to \$6,180 for head of household filing status beginning in tax year 2024.

The bill also increases the personal exemption allowance amount, currently set at \$2,250 for all persons on the return, to \$18,320 for married couples filing joint returns, \$9,160 for all other filers, and an additional \$2,320 for each dependent listed on the return.

Financial Institutions Privilege Tax Rate Changes

The bill reduces the privilege tax rates applied to financial institutions:

- For banks, the normal tax rate is reduced from 2.25 percent to 1.94 percent for tax year 2024 and all years thereafter; and
- For trust companies and savings and loan associations, the normal tax rate is reduced from 2.25 percent to 1.93 percent for tax year 2024 and all years thereafter.

[*Note:* The surtaxes on financial institutions are not affected by the bill.]

Local Government Transfers

The bill abolishes the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund and eliminates statutory transfers from the State General Fund (SGF) to these funds.

School Finance Levy Residential Exemption

The bill increases, beginning in tax year 2024, the amount of residential property exempt from the statewide uniform school finance levy to \$100,000 of appraised value.

The bill discontinues the formula to increase the amount of the exemption based upon the statewide average increase in residential valuation over the preceding ten years.

The bill reduces the uniform school finance levy from 20 mills to 19.5 mills beginning in tax year 2024.

The bill requires a demand transfer to be made from the SGF to the State School District Finance Fund in the amount of any reduction to the State School District Finance Fund attributable to the residential exemption in excess of \$42,049 and the mill levy below 20 mills, as certified by the Director of the Budget.

Food Sales Tax Changes

The bill accelerates the elimination of the state sales and compensating use tax rate on food and food ingredients from January 1, 2025, to July 1, 2024.

The bill accelerates the increase in the percentage of sales tax revenue distributed to the State Highway Fund to 18.0 percent of sales and use tax receipts beginning July 1, 2024, rather than beginning on January 1, 2025.

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