



Wednesday, March 14, 2018

Testimony by KBIA in Support of HB 2761

Chairman Johnson, and members of the House Committee on Taxation, thank you for the opportunity to submit testimony on behalf of the Kansas Building Industry Association (KBIA) in support of HB 2761 which would allow Kansas tax filers to itemize deductions on their state tax filings despite not itemizing at the federal level. KBIA is an affiliate of the National Association of Home Builders and with more than 2,200 members and eight local area building associations across the state the KBIA plays a crucial role in providing housing for Kansas citizens.

Itemized deductions – particularly the mortgage interest and state and local property tax deductions – have long been a topic of conversation for our members and the Kansas Legislature. It is important to note that the mortgage interest deduction (MID), in some form, has been a part of the federal tax code from the inception of the code itself. In the last six years in Kansas there have been multiple attempts to eliminate itemized deductions, and several deductions were eliminated. But the charitable deductions, MID, and state and local property tax deductions have been retained every year. In fact just last year the Kansas House and Senate (SB 30) voted to restore the full value of the mortgage, property tax, and medical expense deductions to pre-2012 levels.

Recent changes in the federal tax code will have significant implications for Kansas citizens who have historically chosen to itemize on their taxes. Because Kansas is “coupled” with the federal government for deduction purposes you may only itemize on your state tax returns if you also itemized on your federal return. With the significant increase in the standard deduction, and new limits on itemized deductions at the federal level it is highly likely that many Kansans will choose the standard federal deduction. However this new benefit at the federal level may well be a detriment at the state level due to a lower state standard deduction.

In past years it was argued that the MID wasn’t important to the working class as only high wealth individuals had a large enough mortgage to give the deduction any significant value. However KBIA believes the exact opposite is true in many cases. Mortgages tend to be a “life-cycle” issue. That is to say that the very young tax filers have probably not purchased a

house yet, and more mature tax filers either own their home outright, or have paid off enough that their interest costs are relatively small. But those taxpayers from 25-50 years of age, people that make up a large part of the work-force, who are starting families, raising children and establishing roots in Kansas communities, are the section of the population that benefits the most from the mortgage interest deduction.

It is no secret that residential construction in Kansas suffered significantly during the recent recession, and recovery has been slow. Now, just as the housing market is beginning to return to more normal levels it appears that we are on the verge of significant mortgage interest rate increases. Loss of the state mortgage interest deduction at a time of rising interest rates would be doubly painful to Kansas homeowners and young families looking to buy their first home. The same can be said for those on a fixed income, or those who own their homes mortgage-free but may be losing their state-level deduction for property taxes.

And finally it is important to note the impacts of this federal change won't be felt only within real estate and home building circles. It has the potential to significantly impact charitable giving in this state and could place additional pressure on our most vulnerable citizens who have experienced significant medical expenses within a tax year. In short, allowing Kansas citizens to itemize their deductions at the state level could potentially help citizens in every stage of life and in every region of the state.

Thank you once again for the opportunity to testify today and KBIA encourages the committee to support HB 2671 allowing Kansas citizens to itemize deductions at the state level.

Sean Miller
Kansas Building Industry Association
212 SW 8th Ave., Ste. 201
Topeka, KS 66603
(785) 232-2131