



Chairman Johnson and Members of the Committee,

We appreciate this opportunity to submit testimony in support of HB 2005, which allows Kansans to itemize on their Kansas return regardless of the deduction taken on their federal return. Our primary support covers three topics:

1. HB 2005 returns tax dollars never intended for state coffers
2. November 2019 Consensus Revenue Estimates makes HB 2005 budget-neutral
3. HB 2005 provides tax relief to low-income Kansans
4. Passing HB 2005 will prevent an annual tax increase trap
5. HB 2005 is a step towards tax competitiveness & improved Kansas economic standing.

### **HB 2005 returns tax dollars never intended for state coffers**

The best way to understand the purpose of HB 2005 is to grasp how the Federal Tax Cuts and Jobs Act (TCJA) affected state law and Kansan's taxes. The TCJA lowered provided tax relief for businesses and families, but also eliminated some exemptions at the state level.<sup>1</sup> In other words, the TCJA lowered Kansans' federal taxes but inadvertently raised their state taxes. Like someone finding a dropped wallet on the sidewalk, the state government inherited higher tax revenues it was never intended to receive. HB 2005 is a step to remedy the mistake, to return the wallet to its rightful owner.

### **November 2019 Consensus Revenue Estimates makes HB 2005 budget-neutral**

In November 2019, the Consensus Estimating Group (CRE) raised the State General Fund revenue estimate for the fiscal year 2020 and fiscal year 2021.<sup>2</sup> For the fiscal year 2020, the CRE predicted the state general fund would see an additional \$220 million, or 3.0% above the previous estimate. The fiscal year 2021 is slated to grow another 3.0% over 2020. This means that as long as the budget remains flat, it is possible to provide tax relief without cutting funding towards any state program. As long as spending is kept in check, HB 2005 is budget neutral policy consideration.

### **HB 2005 provides tax relief to low-income Kansans**

Governor Kelly twice vetoed similar legislation to HB 2005 that would have prevented a tax increase on roughly 90,000 Kansans. To make matters worse, data from the Kansas Department of Revenue (KDOR) shows that lower-income Kansans had a higher effective tax rate increase than those with higher incomes. A breakdown of the Kansans affected by the windfall legislation show

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<sup>1</sup> Kansas Policy Institute, *Coincidence or Preparation? Kansans Cut Shopping Equal to Vetoed Tax Windfall*, <https://kansaspolicy.org/kansans-cut-shopping-vetoed-tax-windfall/>

<sup>2</sup> Division of the Budget and Kansas Legislative Research Department, *State General Fund Revenue Estimate for FY 2020 and FY 2021*, [http://www.kslegresearch.org/KLRD-web/Publications/CRE/2019\\_CRE\\_ShortMemo-11-7-19.pdf](http://www.kslegresearch.org/KLRD-web/Publications/CRE/2019_CRE_ShortMemo-11-7-19.pdf)

- Married filers with Federal Adjusted Gross Income (income column) between \$60,000 and \$90,000 had a 15.3% tax hike though their income fell by 0.7%.
- Married taxpayers making above \$150,000 saw a 12.5% tax increase while their income fell by 0.1%.
- Single filers making between \$30,000 and \$60,000 had a 14.2% tax increase, yet their income fell by 0.2%.
- Single taxpayers making over \$150,000 had a 9% tax increase while their income fell by 4%.

Kansas Former Itemizers - Married Taxpayers						
Change in Average Kansas Adjusted Gross Income (KAGI) and Taxes Owed per Filer						
Income	2017 Average KAGI per Filer	2018 Average KAGI per Filer	2017 Average Tax per Filer	2018 Average Tax per Filer	Change in Average Income	Change in Average Tax Owed
Less Than \$0	\$ (291,025)	\$ (112,369)	\$ 52	\$ (2)	N/A	N/A
\$0 - \$15,000	\$ 9,272	\$ 7,559	\$ (143)	\$ (80)	N/A	N/A
\$15,001 - \$30,000	\$ 19,594	\$ 19,388	\$ (146)	\$ (78)	N/A	N/A
\$30,001 - \$60,000	\$ 39,335	\$ 38,168	\$ 572	\$ 725	-3.0%	26.7%
\$60,001 - \$90,000	\$ 70,000	\$ 69,502	\$ 1,861	\$ 2,146	-0.7%	15.3%
\$90,001 - \$120,000	\$ 99,949	\$ 99,296	\$ 3,217	\$ 3,634	-0.7%	13.0%
\$120,001 - \$150,000	\$ 128,677	\$ 128,308	\$ 4,428	\$ 4,985	-0.3%	12.6%
Over \$150,000	\$ 261,952	\$ 261,721	\$ 9,825	\$ 11,057	-0.1%	12.5%

  

Kansas Former Itemizers - Single Taxpayers						
Change in Average Kansas Adjusted Gross Income (KAGI) and Taxes Owed per Filer						
Income	2017 Average KAGI per Filer	2018 Average KAGI per Filer	2017 Average Tax per Filer	2018 Average Tax per Filer	Change in Average Income	Change in Average Tax Owed
Less Than \$0	\$ (42,347)	\$ (33,747)	\$ (9)	\$ (13)	N/A	N/A
\$0 - \$15,000	\$ 8,425	\$ 7,695	\$ (10)	\$ 13	N/A	N/A
\$15,001 - \$30,000	\$ 18,830	\$ 18,430	\$ 244	\$ 311	-2.1%	27.5%
\$30,001 - \$60,000	\$ 40,884	\$ 40,802	\$ 1,276	\$ 1,457	-0.2%	14.2%
\$60,001 - \$90,000	\$ 65,191	\$ 64,944	\$ 2,352	\$ 2,654	-0.4%	12.8%
\$90,001 - \$120,000	\$ 95,165	\$ 95,391	\$ 3,727	\$ 4,167	0.2%	11.8%
\$120,001 - \$150,000	\$ 125,448	\$ 126,390	\$ 5,081	\$ 5,821	0.8%	14.5%
Over \$150,000	\$ 267,087	\$ 256,449	\$ 11,366	\$ 12,389	-4.0%	9.0%

*Source: Kansas Department of Revenue*

Passing HB 2005 will provide tax relief to 90,000 Kansans, with more aid going towards the lower income.

**Without HB 2005, more Kansans will see a tax increase every year**

According to federal law, the federal standard deduction will increase with inflation every year. However, the federal itemized deductions shall remain constant. These federal item trends mean every year the federal standard deduction becomes more attractive. It thereby entices more Kansans to take the federal standard deduction and facing a state tax hike from it.

KDOR pulled Kansas taxpayers with federal itemized deductions that fall between the current federal deduction and the

Kansas Federal Taxpayers Potentially Seeing a Kansas Tax Increase				
Tax Year	Married Filers \$24,000 - \$24,400	Single or Married Separate Filers \$12,000 - \$12,200	Head of Household Filers \$18,000 - \$18,350	# of Tax Returns
Tax Year 2016	3,299	1,736	260	5,295
Tax Year 2017	3,352	1,654	293	5,299

*Source: Kansas Department of Revenue*

escalator slated for next year. The last two years of data suggest roughly 5,300 Kansas filers are at risk. That's 6% more than the 90,000 that fell into the tax increase trap the previous year. If these taxpayers switch and take the new federal standard deduction, then the state tax hike issue will compound. Roughly 5,300 Kansas filers could fall into a tax increase trap every year unless this committee passes HB 2005.

**HB 2005 is a step towards tax competitiveness & improved Kansas economic standing.**

Having so many tax increases and relatively high rates encourages companies and people to leave and discourage others from moving to Kansas. That's especially important because Kansas has been falling farther behind the nation in private-sector job growth and GDP growth. In fact, in 2019 alone, Kansas has been on the wrong side of growing alongside its peers.

1<sup>st</sup> Quarter of 2019<sup>3</sup>

- Kansas economy ranked the 46<sup>th</sup> fastest in the nation in the 1<sup>st</sup> quarter of 2019
- Kansas government ranked the 10<sup>th</sup> fastest in the nation in the 1<sup>st</sup> quarter of 2019

2<sup>nd</sup> Quarter of 2019<sup>4</sup>

- Kansas economy ranked the 49<sup>th</sup> fastest in the nation in the 2<sup>nd</sup> quarter of 2019
- Kansas government ranked the 15<sup>th</sup> fastest in the nation in the 2<sup>nd</sup> quarter of 2019

3<sup>rd</sup> Quarter of 2019<sup>5</sup>

- Kansas economy ranked the 45<sup>th</sup> fastest in the nation in the 3<sup>rd</sup> quarter of 2019
- Kansas government ranked the 11<sup>th</sup> fastest in the nation in the 3<sup>rd</sup> quarter of 2019

2019 Overall

- Kiplinger, a business new periodical, named Kansas as the 10<sup>th</sup> least tax-friendly state in 2019<sup>6</sup>
- Kiplinger named Kansas as the 3<sup>rd</sup> least tax-friendly state for retirees in 2019<sup>7</sup>
- Tax Foundation named Kansas as the 34<sup>th</sup> best Business Tax Climate in 2019<sup>8</sup>

<sup>3</sup> U.S. Bureau of Economic Analysis

<sup>4</sup> U.S. Bureau of Economic Analysis

<sup>5</sup> U.S. Bureau of Economic Analysis

<sup>6</sup> Kiplinger, *The 10 Least Tax-Friendly States in the U.S.*, <https://www.kiplinger.com/slideshow/taxes/T006-S001-10-least-tax-friendly-states-in-the-u-s-2019/index.html>

<sup>7</sup> Kiplinger, *10 Least Tax-Friendly States for Retirees, 2019*, <https://www.kiplinger.com/slideshow/retirement/T037-S001-10-least-tax-friendly-states-for-retirees-2019/index.html>

<sup>8</sup> The Tax Foundation, *Kansas Tax Modernization: A Framework for Stable, Fair, Pro-Growth Reform*, <http://www.kansaschamber.org/wp-content/uploads/2019/12/TaxReport.pdf>

Had Kansas grown at the national average, the state would have roughly 160,000 more jobs and the economy would have an extra \$29 billion in economic activity. Just think what that would mean for Kansas families. HB 2005 increasing the take-home pay of hard-working Kansans is a step in restoring those jobs and wage losses. HB 2005 helps Kansans keep more of their income, giving a better opportunity for them to raise wages, grow jobs, and spur capital investment.

For these reasons, we encourage the Committee to pass HB 2005 and thank the members for their consideration.