



February 6, 2020

John Wilson, President
Kansas Action for Children
Written neutral testimony for House Bill 2538
House Taxation Committee

Chairman Johnson and Members of the Committee:

Thank you for the opportunity to provide neutral testimony for increasing the Kansas standard deduction. Kansas Action for Children, which includes the Kansas Center for Economic Growth project, is a nonprofit, nonpartisan organization. Our vision is to make Kansas the best state to raise -- and be -- a child, and our organization shapes health, education, and economic policies that improve the lives of Kansas children and families. We support budget and tax policy that prioritizes investing in children and families, particularly among those with low incomes.

Increasing the standard deduction is not cheap, and estimates vary. In your Committee, we have heard verbal estimates in the \$60-70 million range. New fiscal analysis from the Institute on Taxation and Economic Policy (ITEP) suggests a much different fiscal estimate, which increases our concern about the impact of HB 2538 on revenue.

Before federal tax changes at the end of 2017, Kansas' standard deduction was somewhat less compared to the federal standard deduction. However, it must be noted the Tax Cuts and Jobs Act of 2017 eliminated personal and dependency exemptions while significantly increasing the standard deduction. Many compare the amounts of Kansas' smaller standard deduction to the now much larger federal deduction, **but most fail to note that Kansas has retained the personal and dependency exemptions, which further reduce taxable income on Kansas returns.** Kansas allows a \$2,250 exemption per qualified individual on the Kansas return. For example, a married couple with two children would receive \$9,000 of exemptions on their return, further reducing income before taxable income is computed.

As KAC stated in its 1/29/2020 testimony in opposition to HB 2005, if the committee is compelled to alter the state individual income tax, we urge you to consider increasing the standard deduction as an alternative to HB 2005. A similar alternative could be a smaller increase to the standard deduction than proposed in HB 2538—and plan for small increases more frequently.

Kansas Action for Children believes that increasing the standard deduction is a better course of action. This standard deduction measure would be simpler for taxpayers, tax preparers, and the Kansas Department of Revenue. In addition, it would result in a more equitable policy. With HB 2005, a majority of the benefit would overwhelmingly go to the highest earners in Kansas. As ITEP wrote in their newest report:

“State itemized deductions are regressive tax subsidies that come with a high price tag for state budgets. While many of these deductions are defended as incentivizing desirable behavior (charitable giving, homeownership, school funding, etc.), there is little reason to think that they accomplish these goals in a cost-effective manner.”

Research from ITEP shows a strong majority of the benefit of HB 2538 would go to the bottom 80 percent of taxpayers (84 percent). By comparison, just half of the benefit of HB 2005 would go to the bottom 80 percent of taxpayers while the top 20 percent of income earners benefited from the other half.

Lawmakers should reject calls for additional tax changes, including HB 2005 and HB 2538, and instead concentrate on the state’s lengthy list of needs as Kansas recovers from years of reduced tax revenue. Thank you for the opportunity to voice our concern about this bill, and please do not hesitate to contact me at john@kac.org if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'John', with a stylized flourish at the end.

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