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Mark A. Burghart, Secretary

Laura Kelly, Governor

MEMORANDUM

TO: Representative Steven Johnson, Chairman
House Committee on Taxation

FROM: Mark A. Burghart, Secretary
Kansas Department of Revenue

RE: Refundable Food Sales Tax Credit

DATE: March 9, 2020

Thank you for the opportunity to appear in support of 2020 H.B. 2720, a bill creating a new refundable food sales income tax credit for tax years commencing after December 31, 2019 and discontinuing the current nonrefundable food sales income tax credit. The proposal is another recommendation of the Governor's Council on Tax Reform. The Council's four recommendations impacting the State General Fund include the following:

		<u>Fiscal Note</u> (Millions)
2020 H.B. 2720	- Creates a new refundable food sales income tax credit	(\$53.2) - SGF
Governor's Budget	- Full funding of the Local <i>Ad Valorem</i> Tax Relief Fund (LAVTRF)	(\$54.0) - SGF
2020 H.B. 2657	- Requires marketplace facilitators to collect and remit tax on goods sold into the State of Kansas on behalf of remote sellers	\$25.4 - SGF \$5.0 - SHF \$30.4
2020 H.B. 2685	- Makes the sale of digital goods subject to sales/use tax	\$38.2 - SGF \$7.4 - SHF \$45.6
		<hr/> (\$31.2)

I. COUNCIL'S RECOMMENDATION

“In order to reduce the regressivity of the sales tax on food, the Council recommends consideration of a new refundable food sales income tax credit that will benefit as many as 400,000 Kansas households to help offset state and local sales tax paid on groceries. Elimination of the prior food sales tax rebate program in 2012 coupled with sales tax rate increases exacerbated the overall regressivity of the Kansas tax structure. The Council notes that targeting this relief to low and moderate-income taxpayers would be a more effective way of providing relief to those who need it the most than would lowering the rate by one cent on all food purchases ...”

As an example, a one cent reduction in the food sales tax for a family of four, with adjusted gross income of less than \$40,000, making food purchases of \$200 per week amounts to a tax savings of \$2 per week or \$104 per year. The tax relief under 2020 H.B. 2720 would be more than double than that from a general rate reduction.

II. SUMMARY OF BILL

The refundable income tax credit would be determined by the tax filing status and federal adjusted gross income levels of Kansas taxpayers:

<u>Filing Status</u>	<u>Income Level</u>	<u>Credit Amount</u>
Single	\$30,000	\$60
Head of Household	\$40,000	\$180
Married Filing Jointly	\$40,000	\$240
Married Filing Separate	\$30,000	\$60

The income level and tax credit amounts would be adjusted annually to reflect cost-of-living adjustments beginning in tax year 2021.

The number of returns claiming the new refundable food sales income tax credit may exceed 540,000. Approximately 66,500 returns were filed claiming the current nonrefundable food sales income tax credit for tax year 2018.

The proposed refundable credit is based on the filing status and federal adjusted gross income level of the claimant. The current nonrefundable credit is based on the number of exemptions claimed if certain qualifying criteria are otherwise satisfied. The federal Tax Cuts and Jobs Act of 2017 eliminated personal exemptions. Because the federal return does not reflect exemptions, the Department now has the burden of verifying the exemption information. The new refundable credit eliminates this burdensome and costly audit/verification process.

III. FISCAL NOTE

2020 H.B. 2720 would decrease State General Fund revenues by \$53.2 Million in FY 2021, \$54.8 Million in FY 2022 and \$56.5 Million in FY 2023.

On behalf of the Tax Council, I urge your support for H.B. 2720. It is an efficient way of reducing the regressivity of the sales tax and providing food sales tax relief for those most in need of such relief. I would be happy to respond to any questions you might have.