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To: Senate Assessment and Taxation Committee
Date: January 16, 2019
Subject: Testimony in Support of Sections 5 and 6 of SB 13.

Honorable Chairwoman Tyson and members of the Senate Assessment and Taxation Committee:

On behalf of the Kansas Association of REALTORS® (KAR), thank you for the opportunity to appear before you today in support of Sections 5 and 6 of SB 13

KAR represents nearly 10,000 members involved in both residential and commercial real estate and has advocated on behalf of the state's property owners for over 95 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life and providing affordable housing opportunities while protecting the rights of private property owners.

REALTORS® believe that the private ownership of real property is the foundation of our nation's free enterprise system. Homeownership is the cornerstone of the American Dream and deserves a preferred place in our system of values as it contributes to community responsibility; business, civic, and economic stability; family security; and quality of life. We believe every family deserves a decent home and a suitable living environment and our members are committed to helping every single citizen, who so desires, to realize the American Dream of homeownership.

It is because of these beliefs that REALTORS® strongly support policies that prioritize private property ownership. As such, private property ownership, specifically homeownership, deserves a preferred place in our Kansas tax policy.

Remarks on Section 5 of SB 13

Section 5 of SB 13 would add an exemption to the state policy that requires a public vote for certain increases city or county budgets. During the 2018 Legislative Session, KAR worked with proponents and opponents to adding further exemptions to the public vote requirement. The result of that work was compromise language which was reflected in 2018 HB 2755 and reflected in Section 5 of SB 13 before you today.

The Taxation section of the KAR 2019 Legislative Policy Statements states:

As citizens, REALTORS® realize the importance that many government programs play in creating a prosperous economic environment and quality of life for Kansas citizens. However, we join other citizens who have a continuing concern with the increasing cost of government programs and the overlapping of services and associated increase in costs among the local, state and federal government. Accordingly, we urge local and state governments to take immediate steps to eliminate redundant and duplicative programs and services, eliminate wasteful spending on unnecessary items and reduce the increasing burden of state and local

taxation. Furthermore, REALTORS® support policies that give citizens a greater voice in decisions impacting their tax burden. As such, government leaders should put calls for increases in revenue to a public vote.

Section 5 of SB 13 would amend the public vote requirement found at K.S.A. 79-2925c by adding an exemption which provides that an election would not be required for:

Any tax levy increase as a result of another taxing entity being dissolved and all powers, responsibilities, duties and liabilities of the entity have been transferred to the city or county to carry on the function and responsibilities of the dissolved taxing entity, so long as the levy increase does not exceed the levy of the dissolved taxing entity.

The above underlined language was requested by KAR to be included in 2018 HB 2755 (See KAR Testimony to House Taxation Committee on February 28th, 2018). The net effect on a taxpayer from this situation should be zero. It allows the city or county to simply continue the mill levy previously imposed by the abolished taxing entity, but allows for efficiencies to be gained and redundancies to be eliminated through consolidation.

While Section 5 of SB 13 adds another exemption to K.S.A. 79-2925c, KAR continues to hope that this exemption will encourage cities and counties to consider the positive effects of consolidating taxing entities. Further we hope that efficiencies gained thereby will slow the rise of property taxes on Kansans.

Section 6 of SB 13

Under current Kansas law, Kansas income tax filers may only itemize deductions on state tax filings if they itemize on their federal return. Due to the doubling of the federal standard deduction, very few Kansas taxpayers will benefit from the itemized deductions historically provided in Kansas tax law. Section 6 of SB 13 (page 21, lines 2-6) would provide that starting in tax year 2018 and thereafter, an individual may itemize deductions in Kansas tax filings regardless of whether or not an individual's federal return allows itemized deductions.

This change is necessary to prevent a backdoor income tax increase on Kansas homeowners.

Kansas Has A History of Strong Legislative Intent to Provide This Meaningful Tax Relief

In 2012, as part of the early tax packages that were recommended by the administration at the time, the Kansas itemized deductions were targeted for full repeal. Kansas REALTORS® strongly objected and the Legislature responded by preserving these tax benefits for Kansas homeowners.

During the 2013 legislative session, the Kansas Legislature enacted HB 2059, which made number of significant changes to Kansas itemized deductions. Of these changes were systematic reductions, or “haircuts”, to these historic deductions. Under 2013 HB 2059, mortgage interest (MID) and property tax (PTD) deductibility were as follows: 100% in tax year 2012, 70% in tax year 2013, 65% in tax year 2014, 60% in tax year 2015, 55% in tax year 2016, 50% in tax year 2017 and 50% in tax year 2018. The intent was that as individual income tax rates stepped down, the MID and PTD would as well. This was a hard fought alternative to immediate loss of these important deductions.

Tax legislation passed in 2015 accelerated the haircuts to 50% starting in tax year 2015, where both deductions currently stand for tax years 2017 and 2018.

However, during the 2017 legislative session, KAR sought restoration of the PTD and MID. This was based upon KAR's growing concern that many of the tax proposals circulating at the time increased individual rates but failed to restore, even partially, either of these critical deductions. Adding to this concern was the increasing burden that additional school funding may have on property owners through either increases in mill levies or the constant upward pressure on valuations. This is a concern that remains today.

Recognizing the State's need for additional revenue, KAR suggested a delay in restoration. The Legislature responded in passing legislation that put both deductions, along with the medical deduction, on a path to full restoration by 2020.

Federal Tax Reform of 2017 – Unintended Kansas Income Tax Increase on Middle Class Homeowners

On December 22, 2017, President Trump Signed the "Tax Cuts and Jobs Act". As it relates to Kansas itemized deductions, federal reform modified the MID by putting a limit on deductible mortgage debt at a \$750,000 cap. Furthermore, the state and local tax itemized deduction, which included property taxes paid on real property, was capped at \$10,000.

The provision affecting Kansas homeowners and their ability to deduct mortgage interest and property taxes from their Kansas income tax is the federal provision increasing the standard deduction to \$12,000 for single filers and \$24,000 for joint returns. According to the National Association of REALTORS®, by doubling the standard deduction, Congress has greatly reduced the value of the mortgage interest and property tax deductions as tax incentives for homeownership. Congressional estimates indicate that only 5-8% of filers will now be eligible to claim these deductions by itemizing, meaning there will be no tax differential between renting and owning for more than 90% of taxpayers.

Based upon IRS data from 2016, nearly 250,000 Kansans took the MID and over 300,000 claimed the PTD. Of the 729,000 owner occupied houses in 2016, 60% had a mortgage. Of those that took the MID, PTD, and charitable deductions in tax year 2016, roughly half of the filers had adjusted gross incomes of less than \$100,000. It is likely that it will be this segment of taxpayers that will no longer qualify for current state itemization because they fall short in federal itemized deductions. It is important that middle class Kansas homeowners continue to be able to claim these deductions regardless of whether they are in a position to itemize federally.

Kansas Voters Support Proposals to Protect the Itemized Deductions

Most Kansans believe that the state home mortgage interest deduction is a factor in the decision to buy a home and that severely weakening the deduction would have an adverse effect on both the state housing market and overall Kansas economy. Voters strongly support the mortgage interest deduction and agree that the "tax windfall" from federal tax reform should be returned to taxpayers.

These findings were part of a statewide poll of registered voters in Kansas conducted by American Strategies, Inc. for the Kansas Association of REALTORS®. Major findings from the survey include:

- 70% of Kansas voters say the mortgage interest deduction is a factor in encouraging homeownership.
- Nearly two-thirds see elimination of the state mortgage deduction as a negative for both the housing market (63%) and the overall Kansas economy (64%).
- **Overwhelming support (72%) for a proposal to change the Kansas tax law so that families and individual who take the new federal standard deduction can itemize on their state income taxes.**

Conclusion

Economic growth depends on a stable investment environment with a consistent tax code. Since 2012, the Kansas Legislature has passed a series of alterations to Kansas tax policy followed by a repeal of many of those measures in 2017. Throughout the turmoil, Kansas lawmakers have preserved the ability of Kansans to claim the mortgage interest and property tax deductions on state income tax returns. As mentioned, in 2017, the Kansas Legislature put both of these deductions on a path to full restoration.

Failure to act now would result in a significant number of Kansans losing these tax benefits while invalidating years of legislative intent that these deductions be available and preserved in Kansas tax law. The mortgage interest deduction and property tax deduction are favorable tax policies for Kansas homeowners. The State of Kansas should be encouraging homeownership, rather than making homeownership harder. These deductions not only make homeownership more affordable, they recognize the critical importance of the housing industry to the Kansas economy.

Thank you for the opportunity to appear and provide testimony on provisions of SB 13. KAR looks forward to working with the Kansas Legislature on tax policy this session. I am happy to stand for questions at the appropriate time.

Respectfully submitted,



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