

SB 1 Property Tax Rate Cut Denied to Maximize Upper Income Tax Cut

The top income tax rate was cut. The state school property tax rate was not reduced. This routed the major benefit of tax relief to high income earners and not to high property tax payers.

SPECIAL SESSION OF 2024

SUPPLEMENTAL NOTE ON SENATE BILL NO. 1

As Recommended by Senate Committee of the Whole

Brief*

SB 1 would make various changes to income, sales, and property tax law. Specifically, the bill would:

- Restructure individual income tax brackets and rates to provide for a two-bracket system;
- Exempt Social Security income from the individual income tax;
- Increase the standard deduction and personal exemption amounts;
- Reduce privilege tax rates;
- Abolish the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund;
- Increase the amount of the appraised value of residential property exempt from the statewide uniform school finance levy;
- Increase the child and dependent care income tax credit; and

Exclude Section 1031 exchange sales from being considered valid sales for property valuation purposes.

*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

The bill would be in effect upon publication in the *Kansas Register*.

Individual Income Tax Brackets and Rates

The bill would restructure the Kansas individual income tax brackets to a two-bracket system, beginning in tax year 2024. For married individuals filing jointly, taxable income of \$0 to \$46,000 would be taxed at 5.2 percent, and taxable income of \$46,001 and above would be taxed at 5.58 percent.

The new top rate of 5.58% is 13% less than the historic 6.45% rate.

For all other filers, taxable income of \$0 to \$23,000 would be taxed at 5.2 percent, and taxable income of \$23,001 and above would be taxed at 5.58 percent.

Social Security Benefit Exemption

Beginning in tax year 2024, all Social Security benefits would be exempt from Kansas income tax.

Standard Deduction and Personal Exemption Increases

The bill would increase the standard deduction amounts from \$3,500 to \$3,605 for single filing status, \$8,000 to \$8,240 for married filing status, and \$6,000 to \$6,180 for head-of-household filing status beginning in tax year 2024.

The bill would also increase the personal exemption allowance amount, currently set at \$2,250 for all persons on the return, to \$18,320 for married couples filing joint returns, \$9,160 for all other filers, and an additional \$2,320 for each dependent listed on the return.

Financial Institutions Privilege Tax Rate Changes

The bill would reduce the privilege tax rates applied to financial institutions.

For banks, the normal tax rate would be reduced from 2.25 percent to 1.94 percent for tax year 2024 and all years thereafter; and

For trust companies and savings and loan associations, the normal tax rate would be reduced from 2.25 percent to 1.93 percent for tax year 2024 and all years thereafter.

[*Note:* The surtaxes on financial institutions would not be affected by the bill.]

Local Government Transfers

The bill would abolish the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund and eliminate statutory transfers from the State General Fund (SGF) to these funds.

School Finance Levy Residential Exemption

The bill would increase, beginning in tax year 2024, the amount of residential property exempt from the statewide uniform school finance levy to \$75,000 of appraised value.

The bill would discontinue the formula to increase the amount of the exemption based upon the statewide average increase in residential valuation over the preceding ten years.

The bill would require a demand transfer to be made from the SGF to the School Finance Fund in the amount of any reduction to the State School District Finance Fund attributable to the residential exemption in excess of \$42,049

and the mill levy below 20 mills, as certified by the Director of the Budget.

For 2024 only, dates in property tax cycles requiring county clerks to notify taxing entities of certain taxable values and revenue neutral rates would be delayed from June 15 to July 1.

Tax Credit for Household and Dependent Care Expenses

The bill would increase the tax credit for household and dependent care expenses from 25 percent to 50 percent of the federally-allowed amount, effective tax year 2024.

Section 1031 Exchange Exclusion from Valid Sales

The bill would prohibit the sale price at which a property sells in an Internal Revenue Code Section 1031 exchange (1031 exchange) from being considered an indicator of fair market value or used in arriving at fair market value for property tax purposes. The bill would exclude such sales from being considered valid sales for purposes of the sales ratio study used for measuring tax appraisal accuracy.

[*Note:* A 1031 exchange allows a person to postpone paying tax on the gain the person receives from selling a property if they reinvest the proceeds in similar property as part of a qualifying like-kind exchange.]

Background

The 2024 Legislature passed HB 2284, HB 2036, and House Sub. for SB 37, all of which contained various tax reform provisions. These bills were all vetoed and the vetoes were not overridden.

On June 14, 2024, the Governor issued a proclamation calling the Legislature into special session, beginning June 18, 2024, “to pass sustainable, comprehensive tax relief.”

The Speaker of the House of Representatives and the President of the Senate, pursuant to authority granted by the Legislative Coordinating Council, authorized a joint informational hearing of the House Committee on Taxation and the Senate Committee on Assessment and Taxation to review a tax proposal for the special session. The hearing was held on June 17, 2024, and included information on a draft bill providing for tax reform.

Fiscal Information

According to the Department of Revenue, the tax provisions of the bill are estimated to have the following fiscal effects:

(Dollars in Millions)					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Income Tax Brackets & Rates, Std Ded, Pers Ex	(253.4)	(197.0)	(198.9)	(200.9)	(202.9)
Social Security Exemption	(152.1)	(120.7)	(124.4)	(128.1)	(131.9)
Privilege Tax Reductions	(4.8)	(3.7)	(3.7)	(3.7)	(3.7)
Res. Property Tax Exempt to \$75,000	(55.3)	(51.5)	(47.5)	(43.2)	(38.6)
Child Care Tax Credit to 50%	(6.0)	(6.0)	(6.0)	(6.0)	(6.0)
Total Impact	(471.6)	(378.9)	(380.5)	(381.9)	(383.1)

Additionally, the provision excluding Section 1031 exchange transactions from valid sales would have an indeterminate fiscal effect on state and local property taxes.

The bill would also provide for annual transfers from the SGF to the State School District Finance Fund. These transfers would reduce the SGF school finance appropriation obligations and would have no net effect on the SGF.

Taxation; income tax; property tax; credits; Social Security benefits; standard deduction; privilege tax; residential exemption; Local Ad Valorem Tax Reduction Fund; child and dependent care tax credit; 1031 exchanges

Tax Rates

Present Rates

Individuals				Corporations		
Single Return		Joint Return			2023	2024
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate	Rate
First \$15,000	3.10%	First \$30,000	3.10%	First \$50,000	4.00%	3.50%
\$15,001-\$30,000	5.25%	\$30,001-\$60,000	5.25%	\$50,001 and above	7.00%	6.50%
\$30,001 and above	5.70%	\$60,001 and above	5.70%			

History of Tax Rates The current top rate of 5.70% is 12% less than the historic 6.45% rate.

Individuals - 1933 to 1987^a

Taxable Income	1933-56	1957	1958-64	1965-66	1967-67	1970-76	1977-87
First \$2,000	1.0%	1.0%	1.5%	2.5%	2.0%	2.0%	2.0%
\$2,001-\$3,000	2.0	2.0	2.5	3.5	3.5	3.5	3.5
\$3,001-\$5,000	2.5	2.5	3.0	4.0	4.0	4.0	4.0
\$5,001-\$7,000	3.0	3.5	4.0	5.0	5.0	5.0	5.0
\$7,001-\$10,000	4.0	5.0	5.5	6.5	6.5	6.5	6.5
\$10,001-\$20,000	4.0	5.0	5.5	6.5	6.5	6.5	7.5
\$20,001-\$25,000	4.0	5.0	5.5	6.5	6.5	6.5	8.5
\$25,001 and above	4.0	5.0	5.5	6.5	6.5	6.5	9.0

Joint Individuals - 1988 to 2017

Taxable Income	1988	1989-91 ^b	1992-96	1997	1998-2012	2013	2014	2015-16	2017
First \$35,000	4.05%	3.65%							
\$35,001 and above	5.30	5.15							
First \$30,000			3.50%	3.50%	3.50%	3.00%	2.70%	2.70%	2.90%
\$30,001-\$60,000			6.25	6.25	6.25	4.90	4.80	4.60	4.90
\$60,001 and above			6.45	6.45	6.45	4.90	4.80	4.60	5.20

The Brownback top rate of 4.60% was 29% less than the historic 6.45% rate.

Single Individuals - 1988 to 2017

Taxable Income	1988	1989-91 ^b	1992-96	1997	1998-2012	2013	2014	2015-16	2017
First \$27,500	4.80%	4.50%							
\$27,501 and above	6.10	5.95							
First \$20,000			4.40%	4.10%					
\$20,001-\$30,000			7.50	7.50					
\$30,001 and above			7.75	7.75					
First \$15,000					3.50%	3.00%	2.70%	2.70%	2.90%
\$15,001-\$30,000					6.25	4.90	4.80	4.60	4.90
\$30,001 and above					6.45	4.90	4.80	4.60	5.20

Corporations - 1933 to 2023

Taxable Income	1933-56	1957	1958-64	1965-69	1970-97	1992-2007	2008	2009-10	2011-23
First \$25,000	2.00%	3.00%	3.50%	4.50%	4.50%	4.00%	4.00%	4.00%	4.00%
\$25,001-\$50,000	2.00	3.00	3.50	4.50	6.75	7.35	7.10	7.05	4.00
\$50,001 and above	2.00	3.00	3.50	4.50	6.75	7.35	7.10	7.05	7.00

a) Brackets shown for 1933 to 1987 are for single individuals; the bracket range was doubled for joint returns.

b) For 1989-1991, a set of higher rates were required for taxpayers making an optional election to deduct their federal tax liability.

Mandatory School District General Fund Levy

Statutory Citation

KSA 2023 Supp. 72-5142

Present Rate

20 mills for the 2023–24 and 2024–25 school years.

History of Tax Rate

Prior to 1992 school finance legislation, school district general fund levies varied across the state according to the revenue requirements of each school district's general fund. The levies ranged from 9.12 mills to 97.69 mills. The 1992 law established a uniform levy of 32 mills for 1992, 22 mills for 1993, and 35 mills for 1994 and all years thereafter, and it provided for state aid to satisfy the remaining revenue requirements of school district general funds. The tax rate remained at 35 mills through 1996 and was reduced to 27 mills in 1997 and 20 mills in 1998. It has remained at 20 mills since that time.

Tax Levied for Collection

<u>Year</u>	<u>Millions \$</u>
2018	685.3
2019	718.8
2020	740.3
2021	769.6
2022	801.1

Since 1998, the state school property tax rate has not been reduced.

Residential Exemption

Legislation enacted in 1997 provided for a special exemption of the first \$20,000 of appraised value of residential property from only this mill levy. That exemption remained in place through 2022, when it was increased to the first \$40,000 of appraised value of residential property and provided to increase in future years based on the ten-year average annual growth rate of residential real property in the state.

Exempted Tax Pursuant to Residential Exemption

<u>Year</u>	<u>Millions \$</u>
2018	46.0
2019	46.3
2020	46.4
2021	46.6
2022	90.3

Disposition of Revenue

Beginning in 2015, the entire amount of the proceeds of the levy were remitted by county treasurers to the state treasury to be deposited in the State School District Finance Fund. Prior to that year, most receipts were retained by local school districts and treated as "local effort" for school finance purposes. When a district's local effort exceeded their general fund budget authority, the excess was remitted to the state and deposited in the State School District Finance Fund.

Kansas Legislature

SB 1

AN ACT concerning taxation; relating to income tax; modifying tax rates for individuals; eliminating the income limit to qualify for a subtraction modification for social security income; increasing the Kansas standard deduction and the Kansas personal exemption; increasing the tax credit amount for household and dependent care expenses; relating to privilege tax; decreasing the normal tax rate; relating to property tax; excluding internal revenue code section 1031 exchange transactions as indicators of fair market value; increasing the extent of exemption for residential property from the statewide school levy; providing for certain transfers to the state school district finance fund; abolishing the local ad valorem tax reduction fund and the county and city revenue sharing fund; amending K.S.A. 65-163j, 65-3306, 65-3327, 75-2556, 79-503a, 79-5a27, 79-1107, 79-1108, 79-1479 and 79-32,111c and K.S.A. 2023 Supp. 74-8768, 79-201x, 79-2988, as amended by section 15 of 2024 Senate Bill No. 410, 79-32,110, 79-32,117, as amended by section 14 of 2023 Senate Bill No. 27, 79-32,119 and 79-32,121 and repealing the existing sections; also repealing K.S.A. 19-2694, 79-2960, 79-2961, 79-2962, 79-2965, 79-2966 and 79-2967 and K.S.A. 2023 Supp. 79-2959, as amended by section 189 of 2023 Senate Bill No. 28, and 79-2964, as amended by section 190 of 2023 Senate Bill No. 28.

House - Emergency Final Action - Passed; - 06/18/2024

On roll call the vote was:

My opponent voted for the bill.

Yea - (121):

Alcala, Amyx, Anderson, Awerkamp, Ballard, Barth, Bergquist, Blew, Blex, Bloom, Borjon, Bryce, Buehler, Butler, Carlin, Carmichael, B. Carpenter, W. Carpenter, Carr, Clifford, Collins, Concannon, Corbet, Croft, Curtis, Delperdang, Dodson, Droge, Ellis, Eplee, Essex, Estes, Fairchild, Featherston, Francis, Garber, Gardner, Goddard, Goetz, Haskins, Haswood, Hawkins, Helgerson, Highberger, Hill, Hoffman, Hoheisel, Hougland, Houser, Howe, Howell, Howerton, Hoye, Humphries, Jacobs, Johnson, Kessler, Landwehr, Lewis, Martinez, Maughan, McDonald, McNorton, Melton, Meyer, D. Miller, S. Miller, V. Miller, Minnix, Moser, Murphy, Neelly, Neighbor, Ohaebosim, Oropeza, Osman, Ousley, Owens, Penn, Poskin, Probst, Proctor, Rahjes, Resman, Rhiley, Robinson, Roth, L. Ruiz, S. Ruiz, Sawyer, Sawyer Clayton, Schlingensiepen, Schmoe, Schreiber, Seiwert, Shultz, A. Smith, C. Smith, E. Smith, Stiens, Stogsdill, Sutton, Tarwater, Thomas, Thompson, Titus, Turk, Turner, Underhill, Vaughn, Waggoner, Wasinger, Waymaster, Weigel, White, K. Williams, L. Williams, Winn, Woodard, Xu, Younger,

Nay - (2):

Bergkamp, Poetter Parshall,

Present but not Voting - (0):

Absent and Not Voting - (2):

Pickert, Sanders,

Not Voting - (0):