

Report of the Governor's Council on Tax Reform

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Overview

- Presenting highlights of the Report on the Governor's Tax Reform Council
- Comparison of taxation in Kansas and other states:
 - Income, Sales, Excise, Property Taxes
- Hypothetical Taxpayers Approach
 - Income, Sales and Property Taxes
 - Comparison of HB 2711 and Axe the Food Tax



Kansas Taxation Compared to Other States

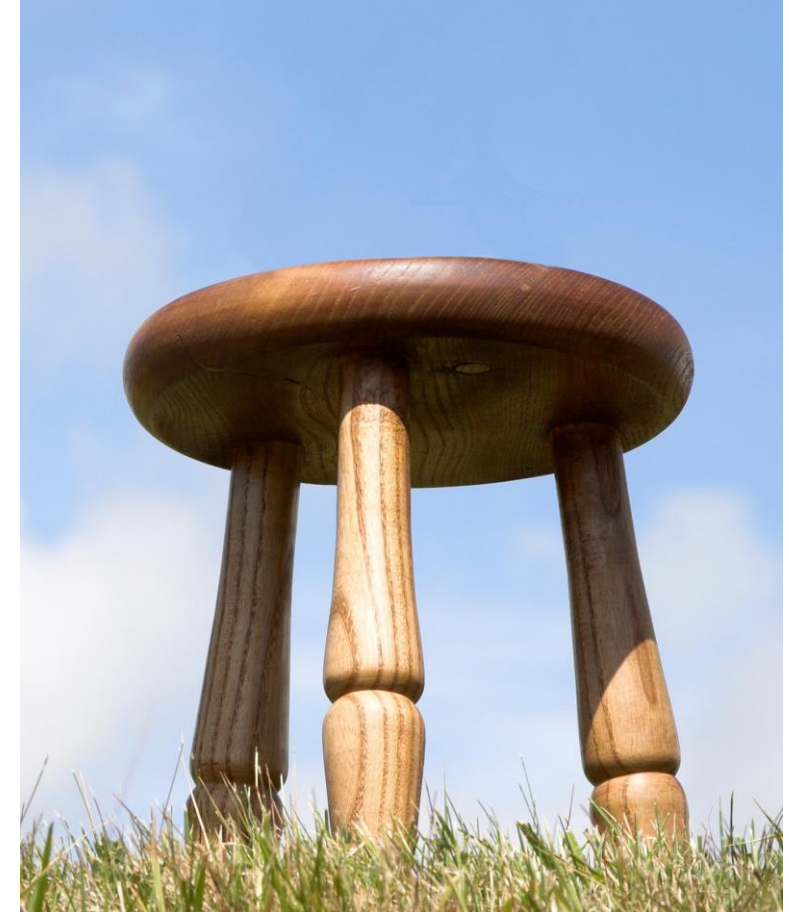
Overview

- Kansas tax rates fall somewhere in the middle when it comes to personal and corporate income taxes.
- However, sales taxes are relatively higher
- Since property taxes are local, we compare those within the state.

Three-Legged Stool

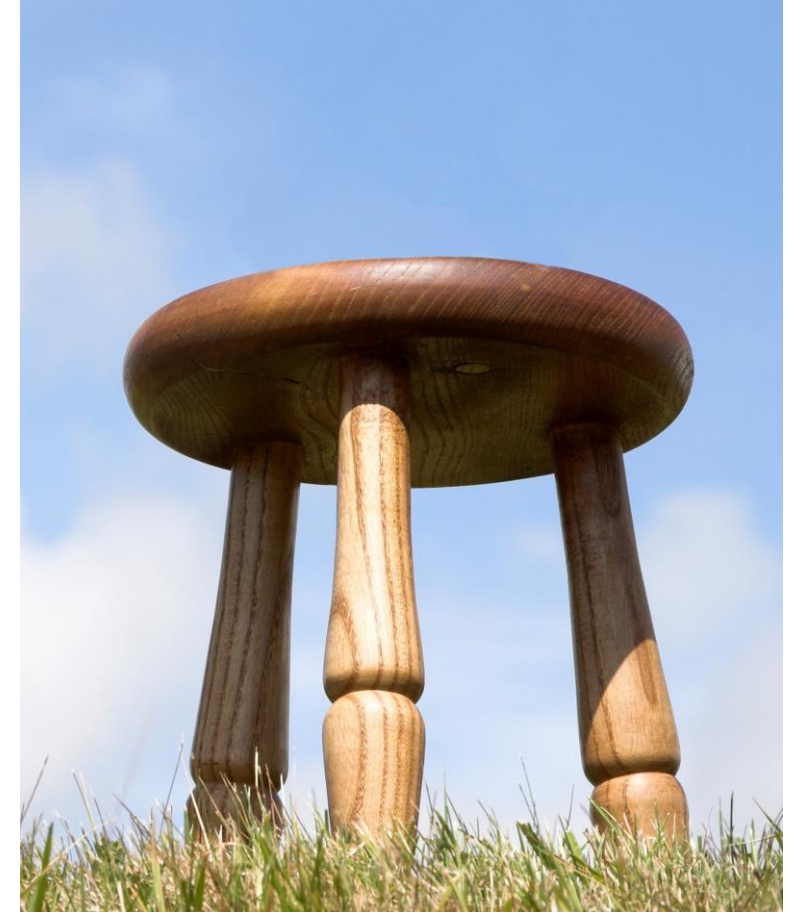
“The state and local tax system should be balanced and diversified. A diversified tax system offers a blend of economic tradeoffs. Because all revenue sources have their weaknesses, a balanced tax system will reduce the magnitude of problems caused by over-reliance on a single tax source. It will also result in lower rates on each tax and reduce the pressure of competition from other states that have lower rates for a particular tax.”

--Governor Bill Graves Tax Equity Task Force, 1995

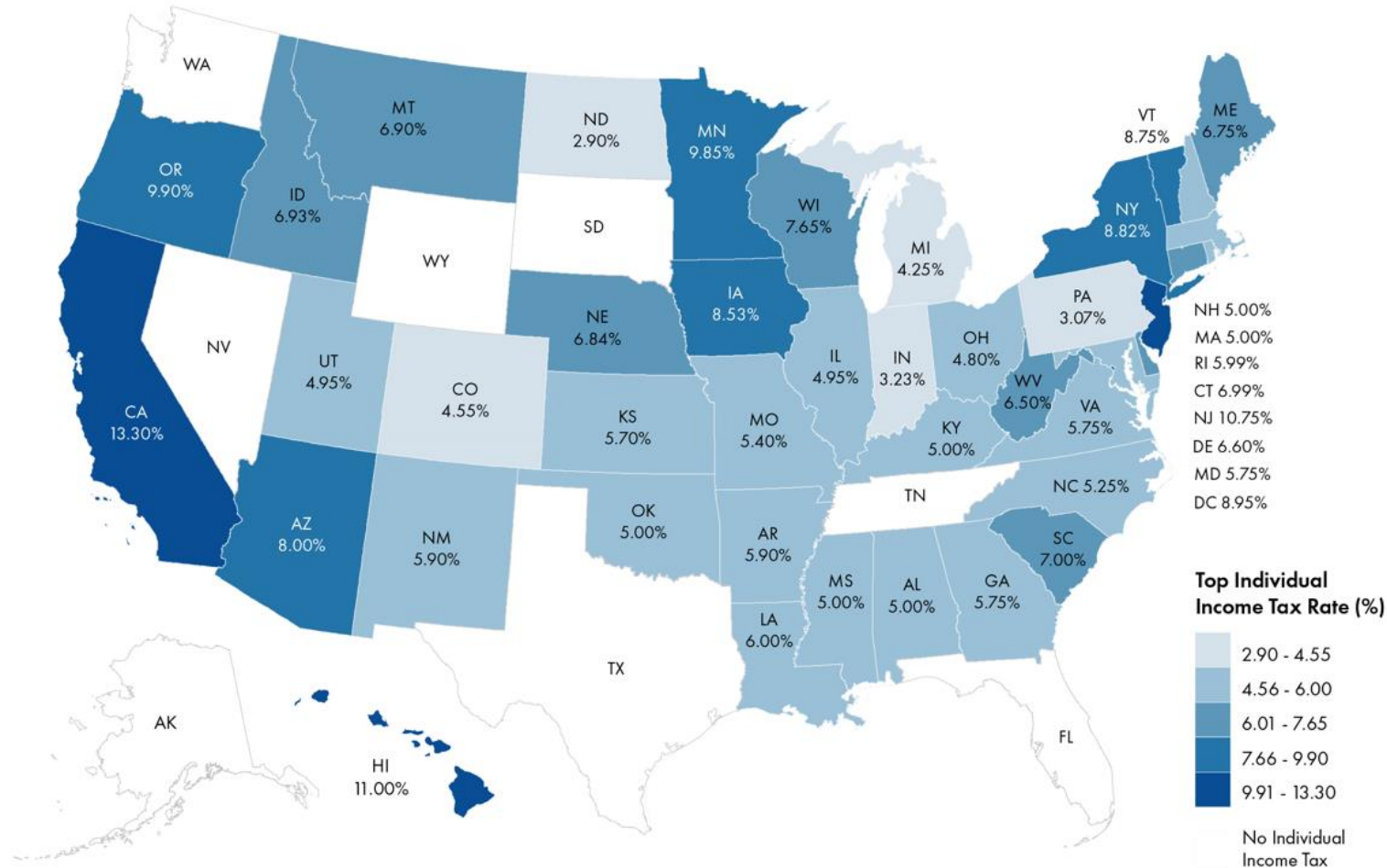


Three-Legged Stool

The Council recommends that Kansas state and local tax policy adhere to the Three-Legged Stool concept that balances income, sales, and property taxes. This approach, endorsed by both Republican and Democratic administrations in Kansas, has proven to serve Kansas taxpayers by preventing an over-reliance on a single tax source.

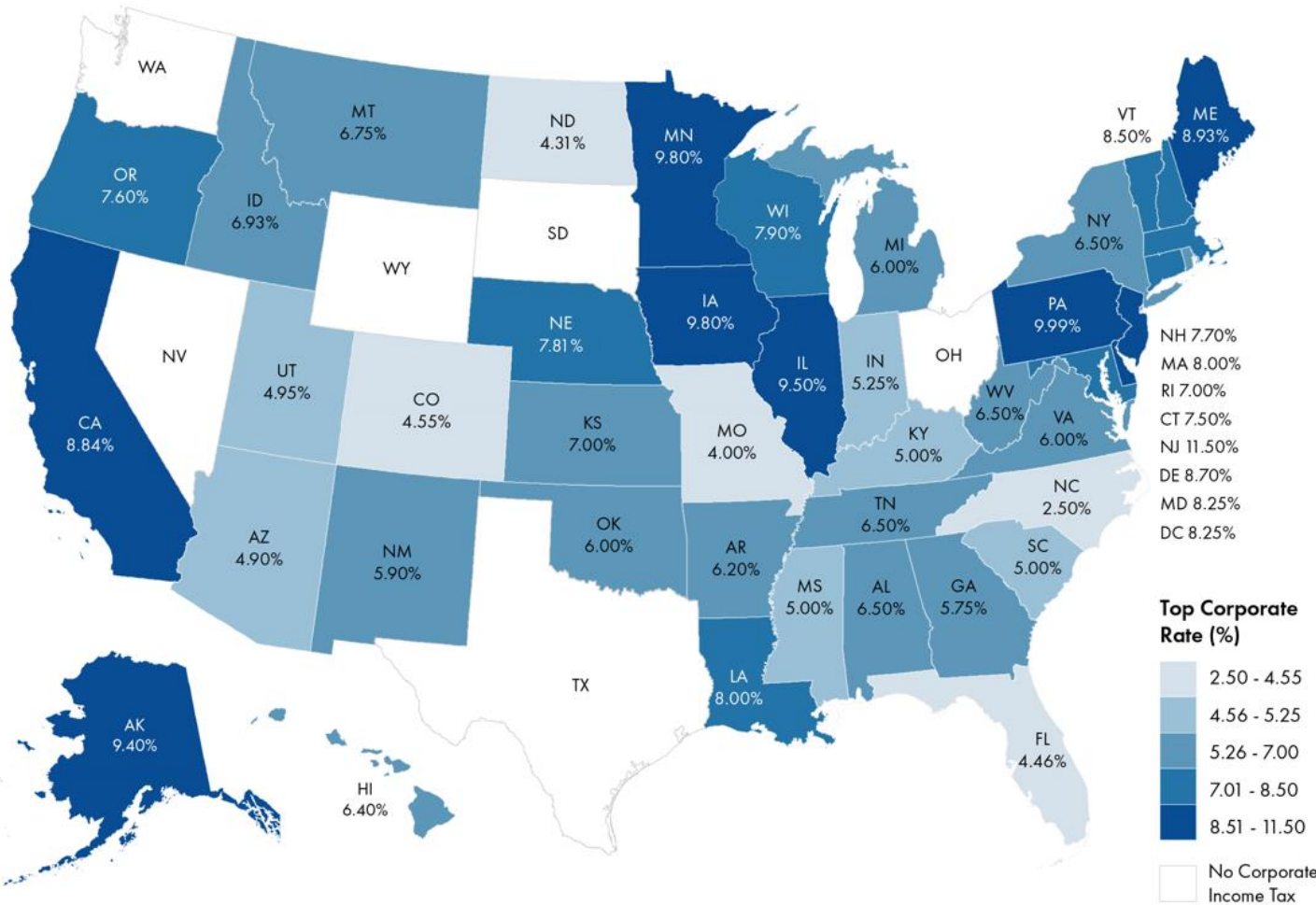


Top Individual Income Tax Rate by State



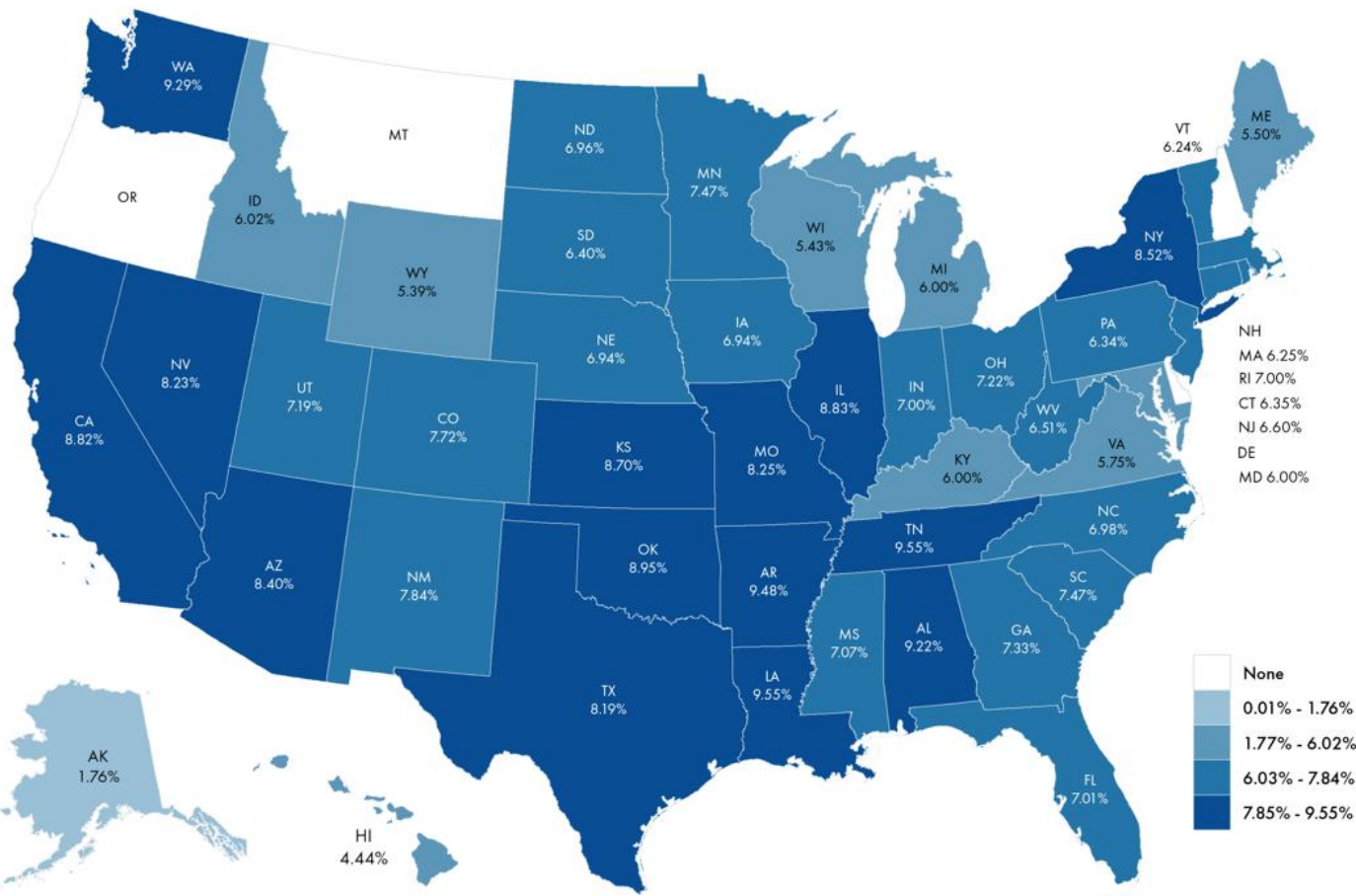
- In states that levy one, the top individual income tax rate in the US ranges from 2.9% in North Dakota to 13.3% in California.
- Kansas is at the lower end of the middle at 5.7%.

Top Corporate Income Tax Rate by State



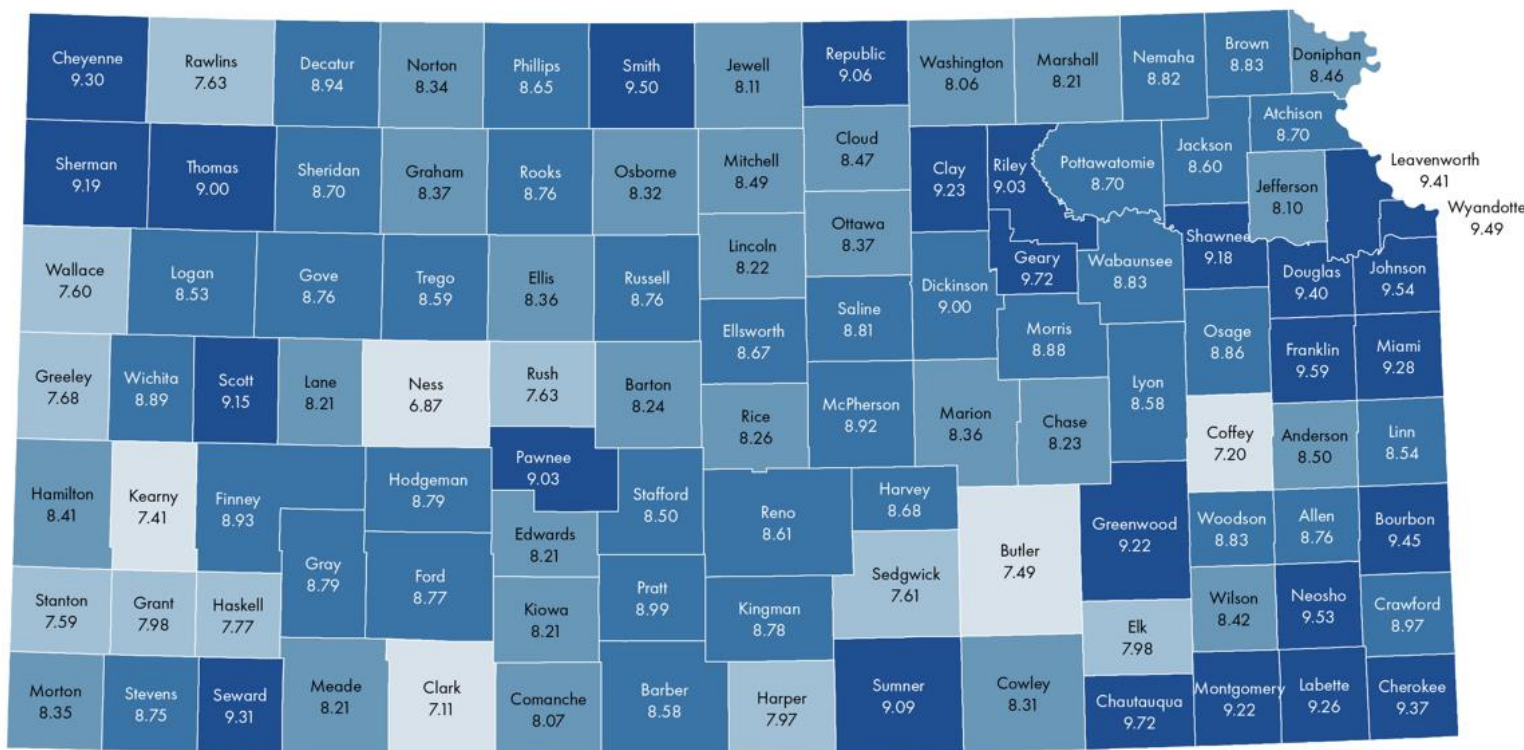
- The top corporate income tax rate in states with corporate income tax ranges from 2.5% in North Carolina to 11.5% in New Jersey.
- Kansas ranks in the middle at 7%.

Combined State and Local Average Sales Tax Rates in the US by State



- Average combined state and local sales tax in states with sales tax ranges from 1.76% in Alaska to 9.55% in Louisiana.
- Kansas has relatively high sales taxes at 8.7%

Average Sales Tax Rate by County



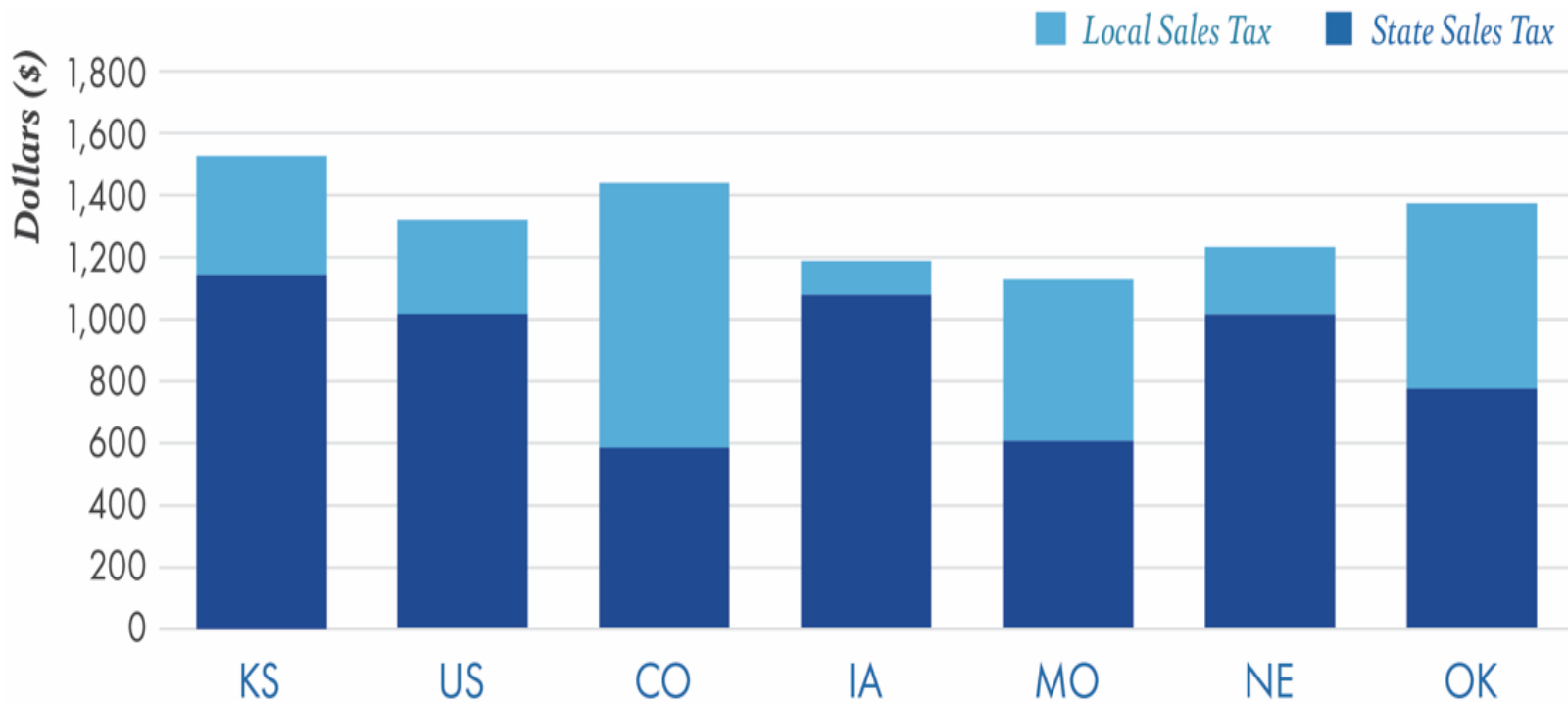
Average Sales Tax Rate

State: 8.81%



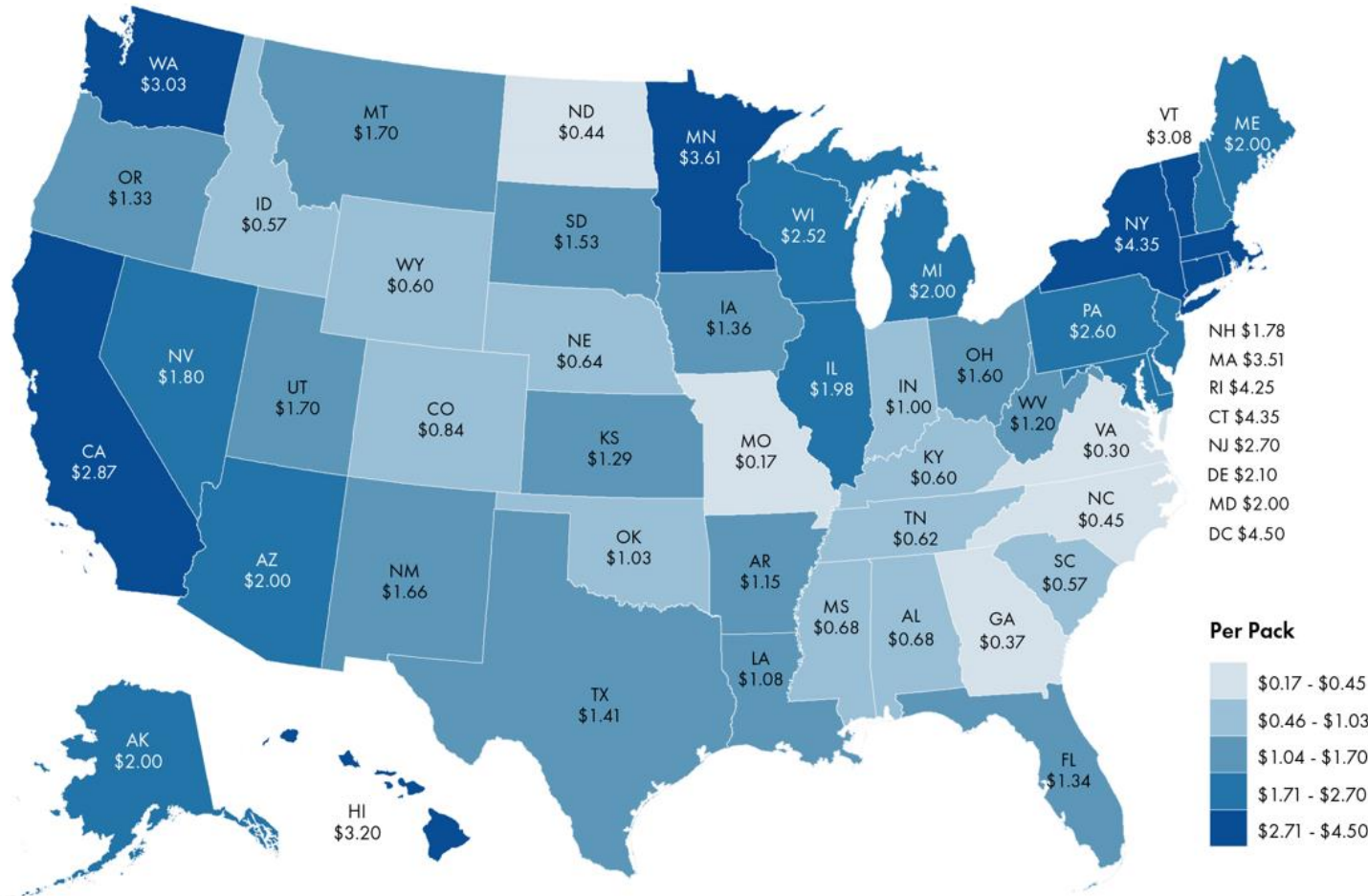
- Average sales tax rate in Kansas ranges from 6.87% in Ness County to 9.72% in Geary County.
- Statewide average is 8.81%.

State and Local Sales Tax Per Capita



- Kansas state and local sales tax per capita is higher than all our comparison states at \$1,527 in 2019.

Cigarette Tax by State



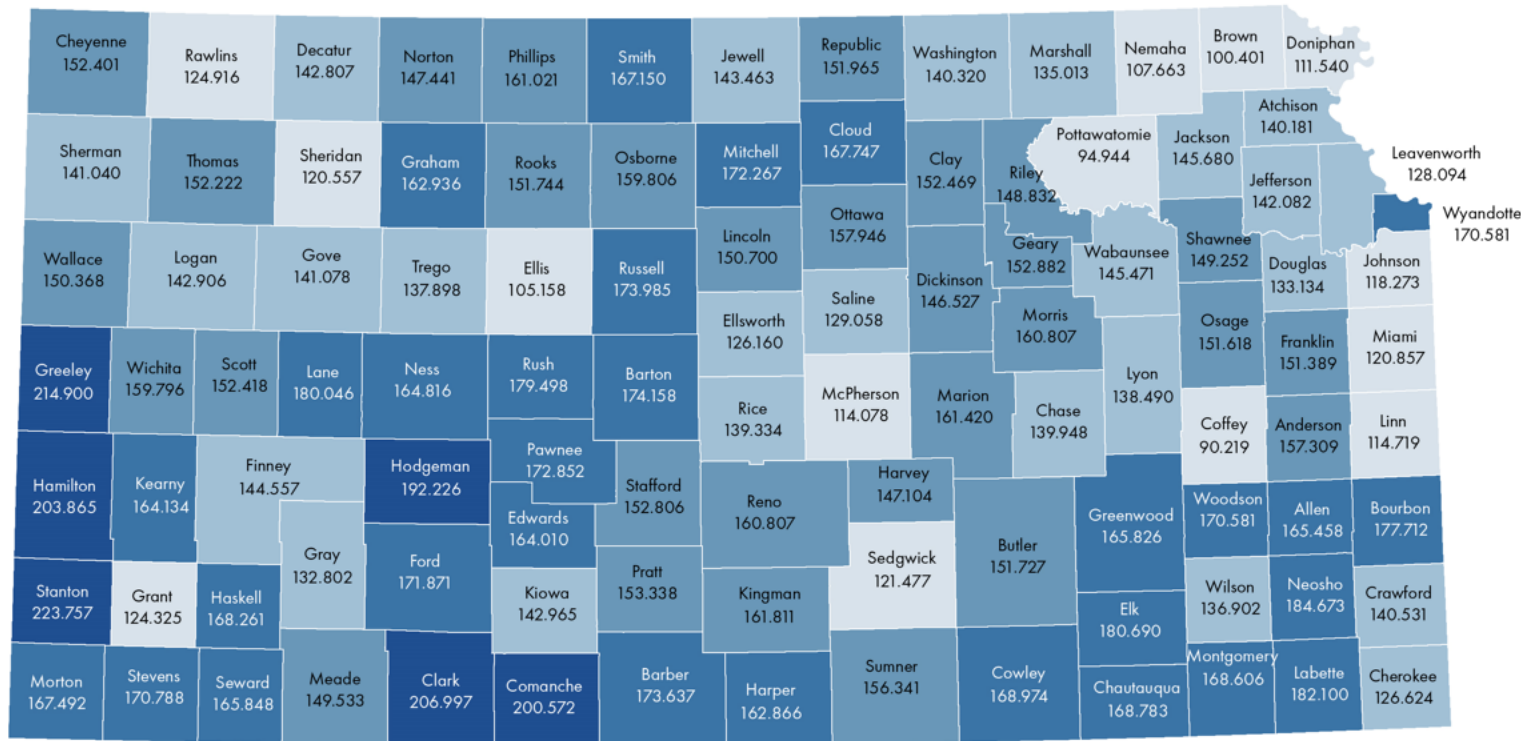
- Kansas has a higher per pack cigarette tax than our comparison states at \$1.29 per pack.
- DC has the highest tax at \$4.50 per pack and Missouri the lowest at \$0.17.

Property Taxes

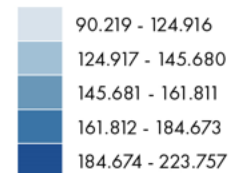
Property Taxes May Become a Pressing Issue

- Housing Prices increased in Kansas by 14.7% in 2021
 - Kansas City 15.6%
 - Wichita 13.9%
 - Topeka 15.8%
 - Lawrence 16.2%
- This may create consternation for taxpayers this year.

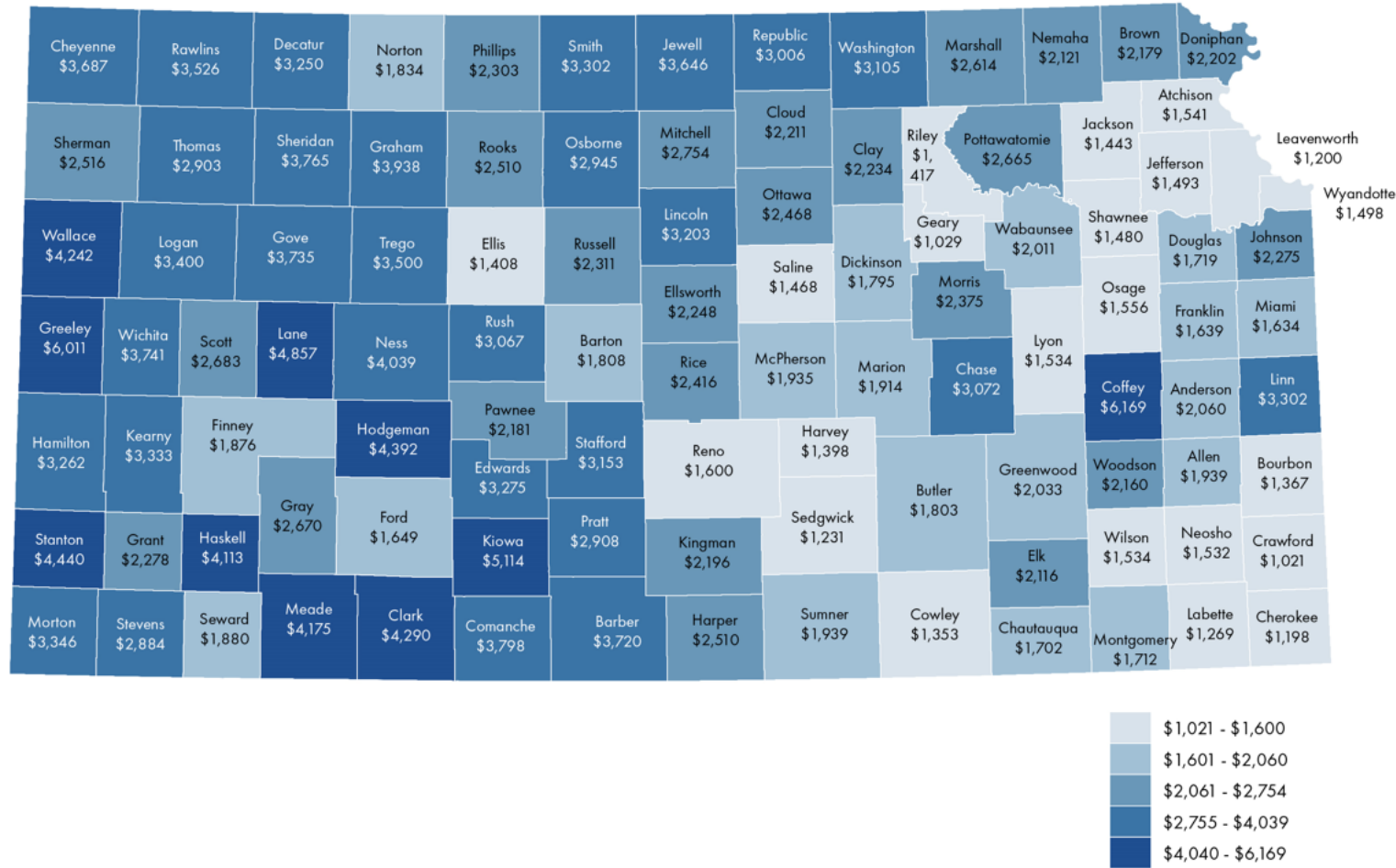
Average Mill Levy by Kansas County



- The average mill levy in Kansas ranges from 90.2 in Coffey County to 223.8 in Stanton County.

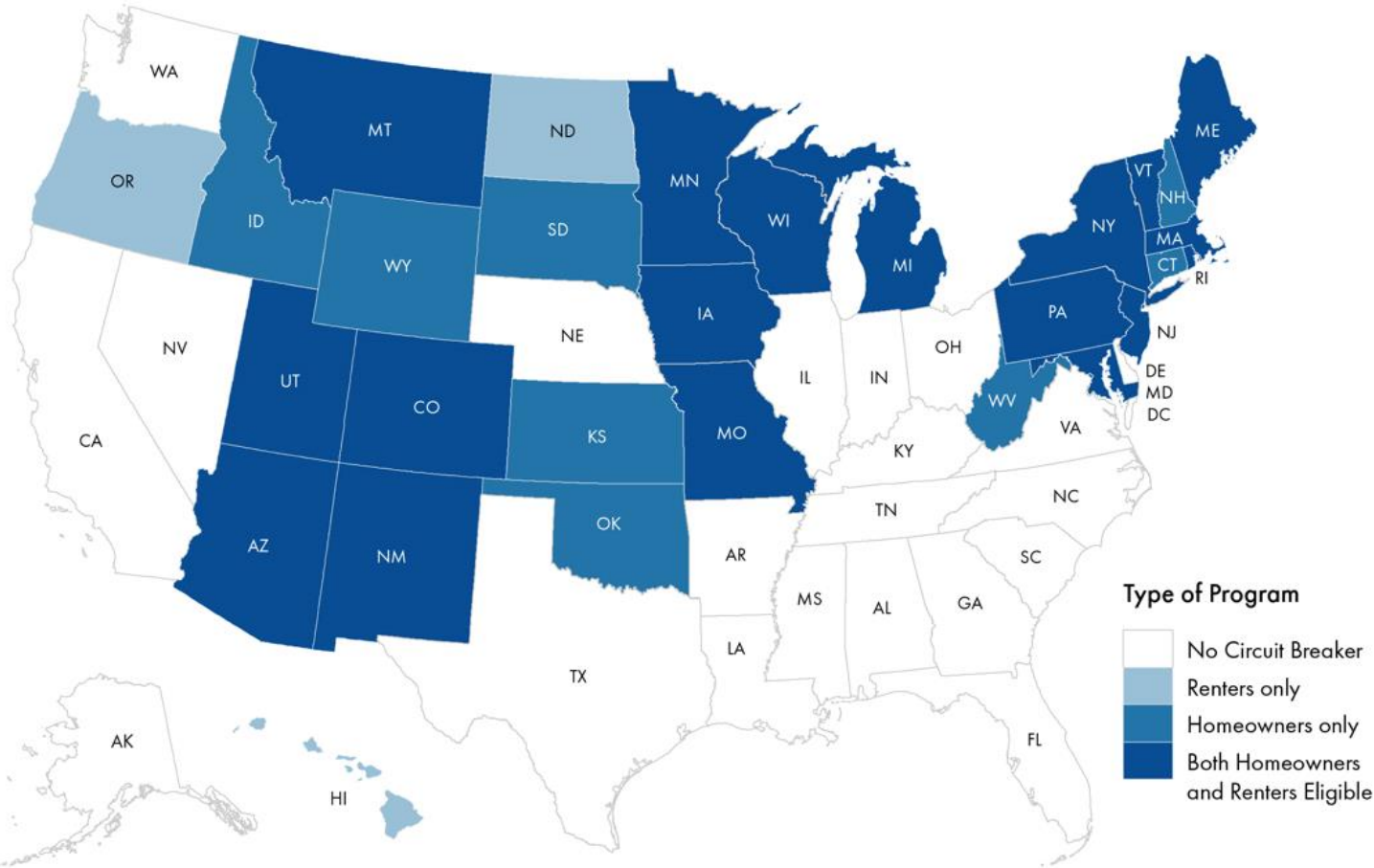


Per Capita Property Taxes by Kansas County



- Per capita property taxes in Kansas range from \$1,021 in Geary County to \$6,169 in Coffey County (home of the Wolf Creek Power Plant). Greeley county \$6,011.

Property Tax Circuit Breakers by State



- As of 2018, 29 states and the District of Columbia have property tax “circuit breakers” for homeowners, renters, or both.
- Kansas has a circuit breaker policy for homeowners only

Property Tax Subcommittee Recommendations

- ***Expansion of the Homestead Property Tax Refund circuit-breaker program*** to support the ability of fixed-income Kansans to pay property taxes without narrowing the local property tax base.
- ***Expansion of the \$20,000 homestead exemption from the statewide mill levy to*** target property tax reduction on residential homeowners.
- ***Funding for the Local Ad Valorem Tax Reduction Fund demand transfer*** to support reductions in local property tax levies.

Property Tax Recommendations

- ***Expansion of local excise tax authority*** to enable cities and counties to seek voter approval of other local revenue streams to reduce reliance on local property taxes.
- ***Provide additional state funding for the State Board of Tax Appeals (SBOTA).***
- ***Update Senate Bill 13 to make it workable for local governments.***

Property Tax Recommendations

- ***Maintain the state's commitment to its annual fair-market-value based property tax valuation system.***

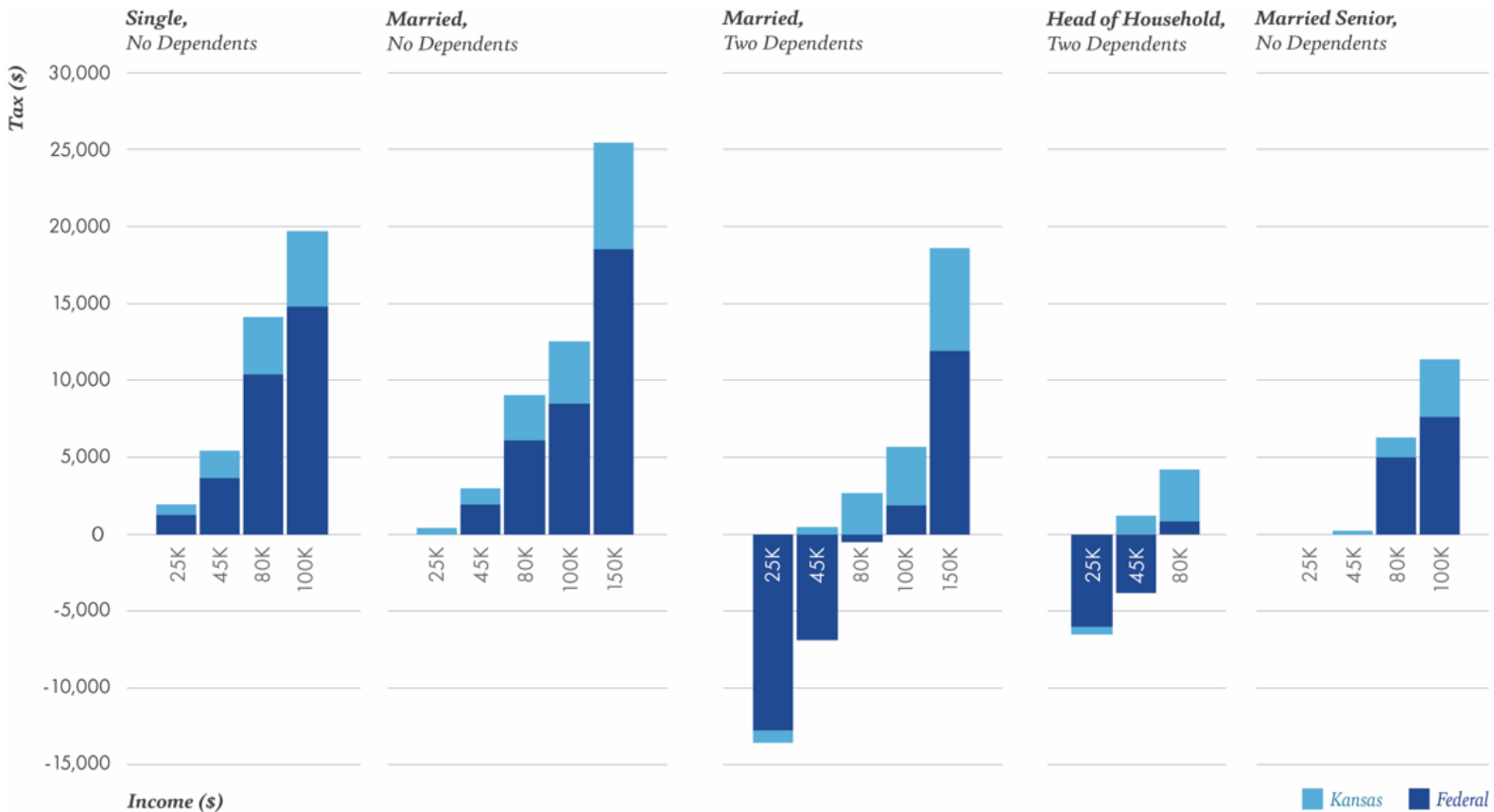
The Hypothetical Taxpayer Approach to Income, Sales and Property Taxes

Increase utilization of the Hypothetical Taxpayer model to evaluate and provide context regarding future proposals and their impact on the Three-Legged Stool principle of taxation and individual taxpayers.

Overview on Hypothetical Taxpayers

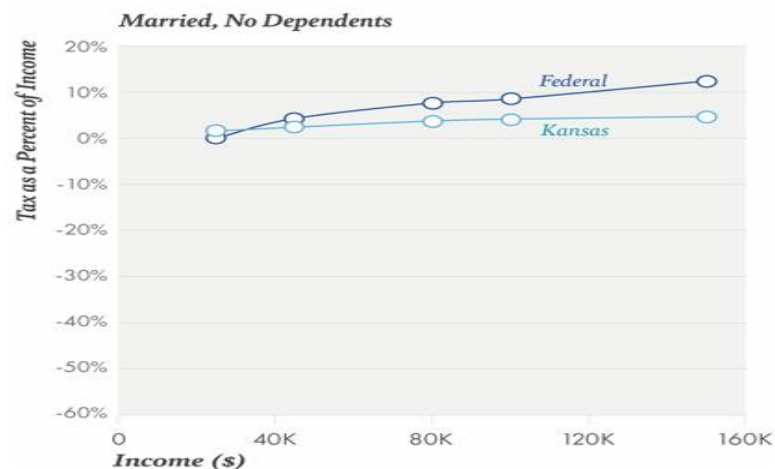
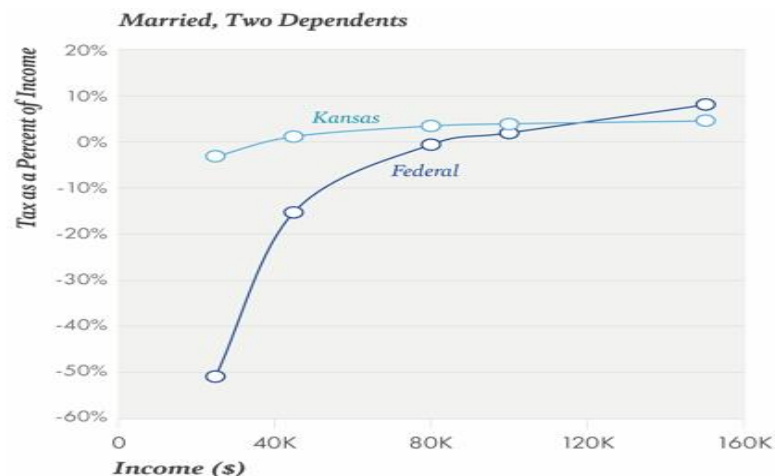
- We created 21 separate hypothetical taxpayers by filing status (single, married-joint, head of household), number of dependents, and age (prime aged vs. elderly).
- We filled out federal and state tax forms and then:
 - Found average consumption expenditures from the Survey of Consumer Expenditures.
 - Located them in different parts of the state (Johnson County, Salina, Scott City, State average)
- Modeled impact of tax policy on these households:
 - Progressivity vs regressivity

Federal and State Income Tax for Hypothetical Households



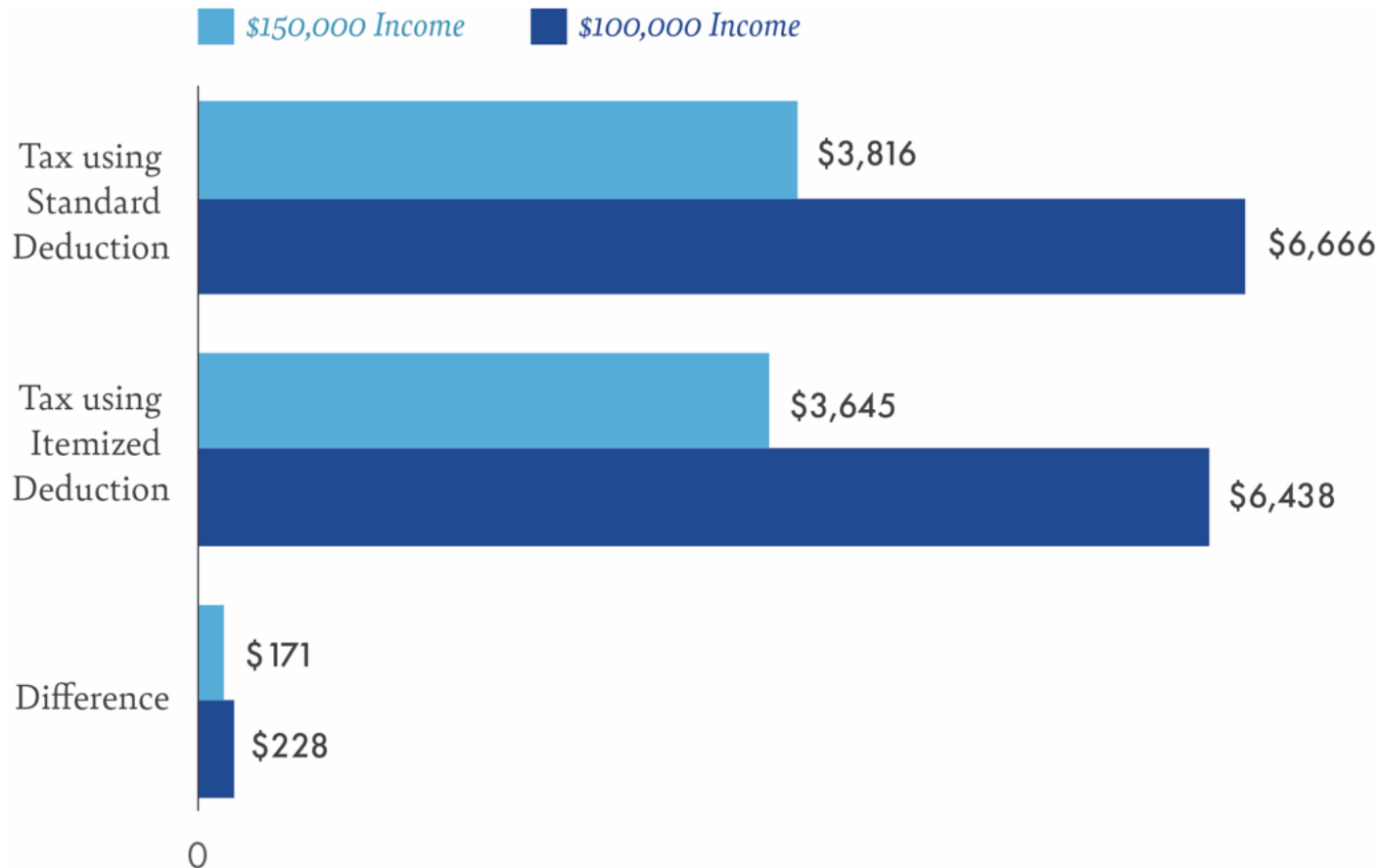
- Kansans' state and federal taxes by filing status and income are shown left.
- Married filers with two dependents with an income of 45,000 pay \$419 in Kansas income tax but receive \$6,907 in federal tax credits.
- Kansas pay more taxes at lower earnings because the state have eliminated low-income tax credits and reduced progressivity.

State and Federal Income Tax as a Share of Income



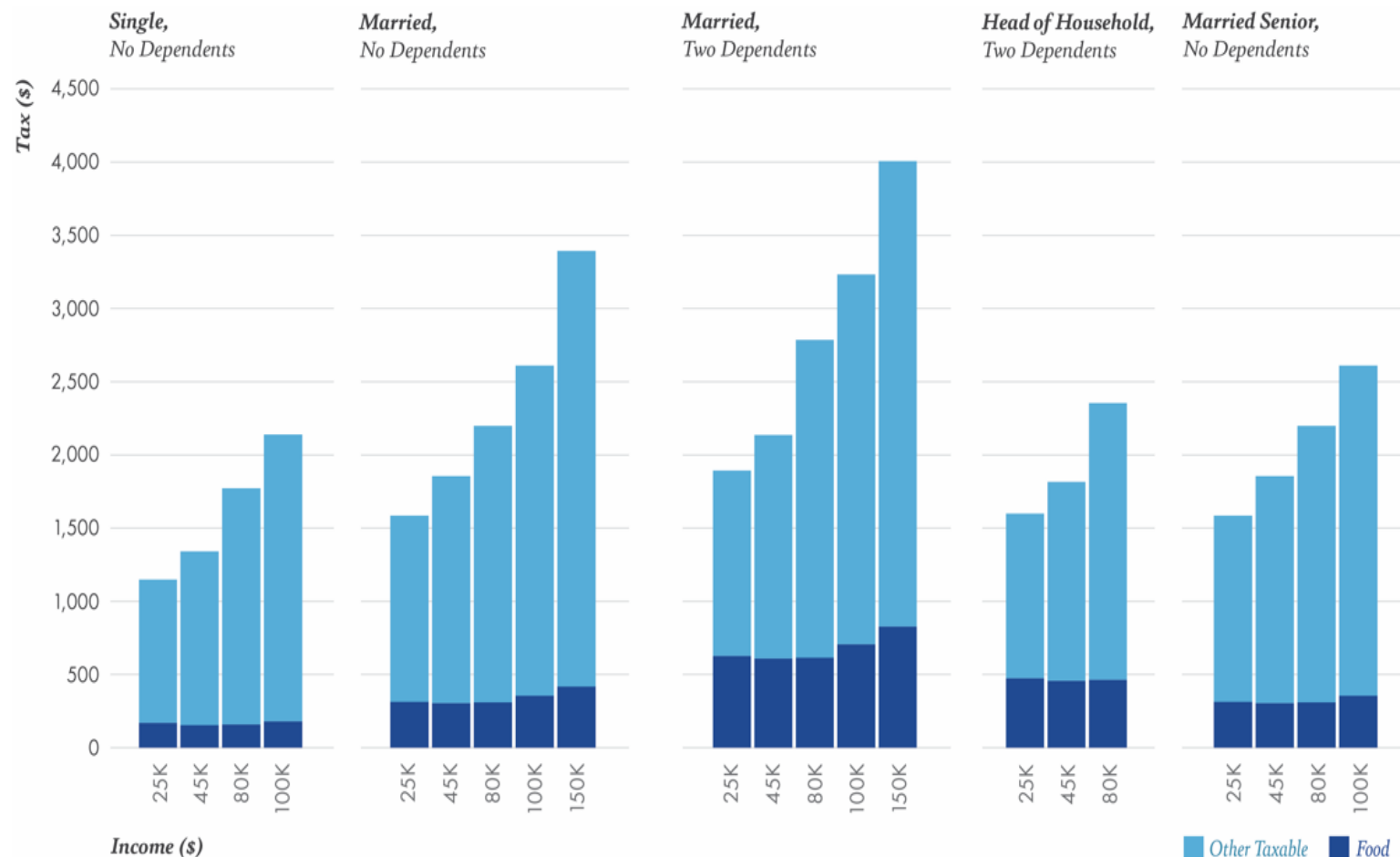
- Federal and state income tax as a share of income for Kansas married couples with two dependents and couples with zero dependents are shown left.
- The federal income tax is progressive, but Kansas income taxes are relatively flat.

Impact of Kansas Itemization on a Hypothetical Family of Four



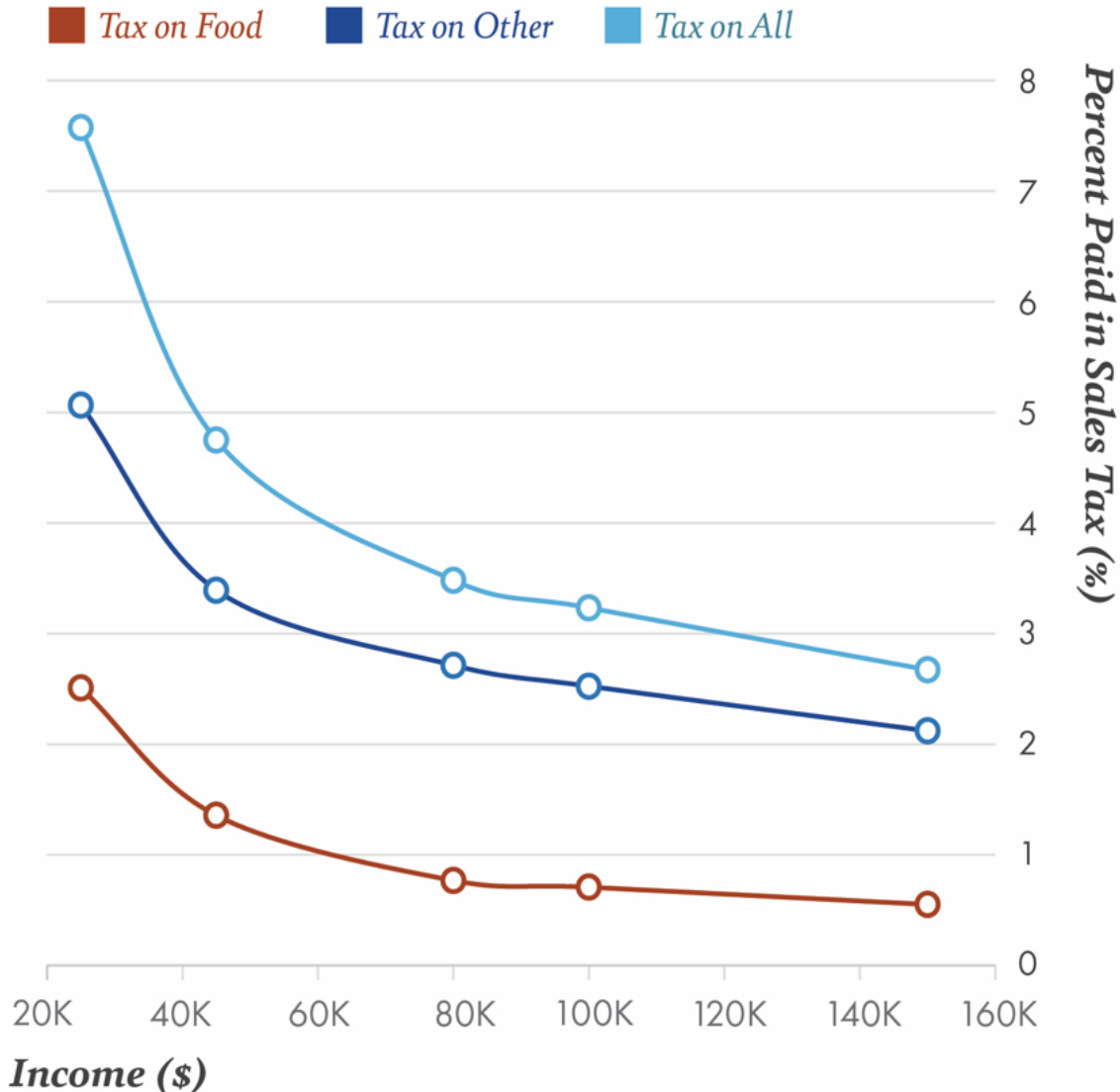
- A hypothetical Kansas family of four would likely save between \$170 and \$230 due to the itemization provision of SB 50.
- This benefits about 18,000 taxpayers.

Sales Tax on Food and Other Taxable Goods



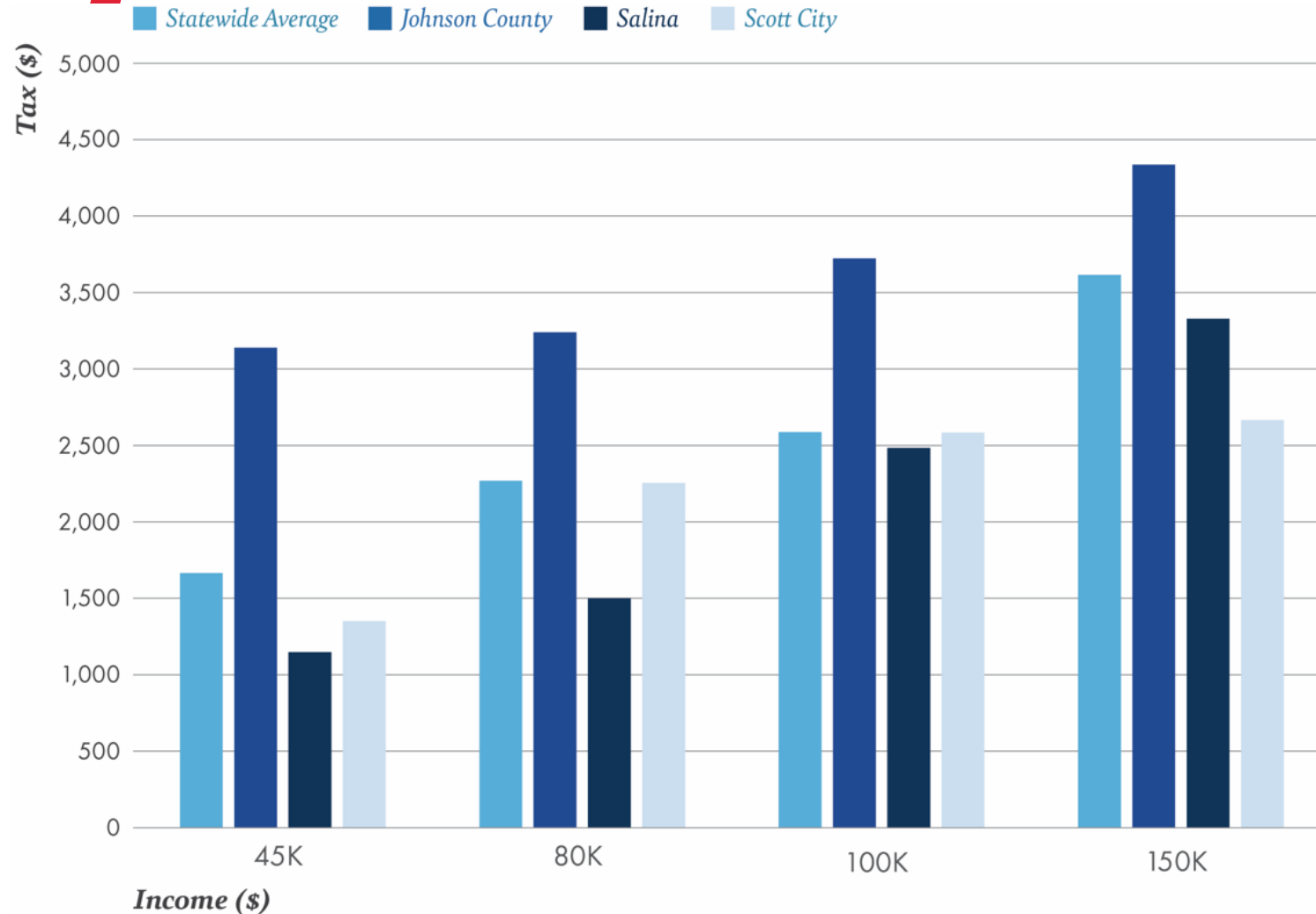
- Combined State and Local tax on food makes up a greater portion of income for low income households, as well as households with dependents.

State and Local Sales Tax as a Share of Income



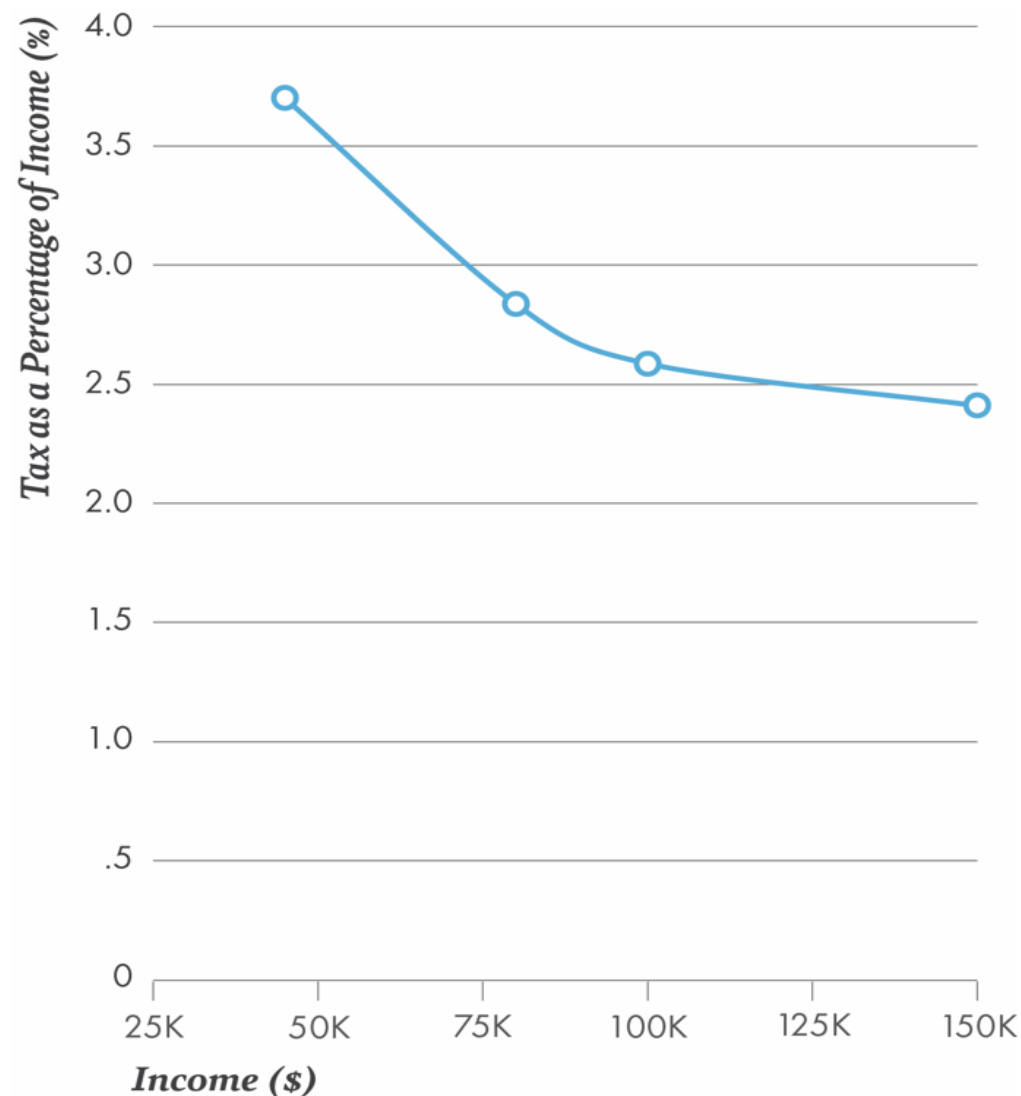
- Low income households pay a greater share of their income in sales taxes on all items.
- Sales taxes are regressive.

Residential Property Tax for a Household of Four



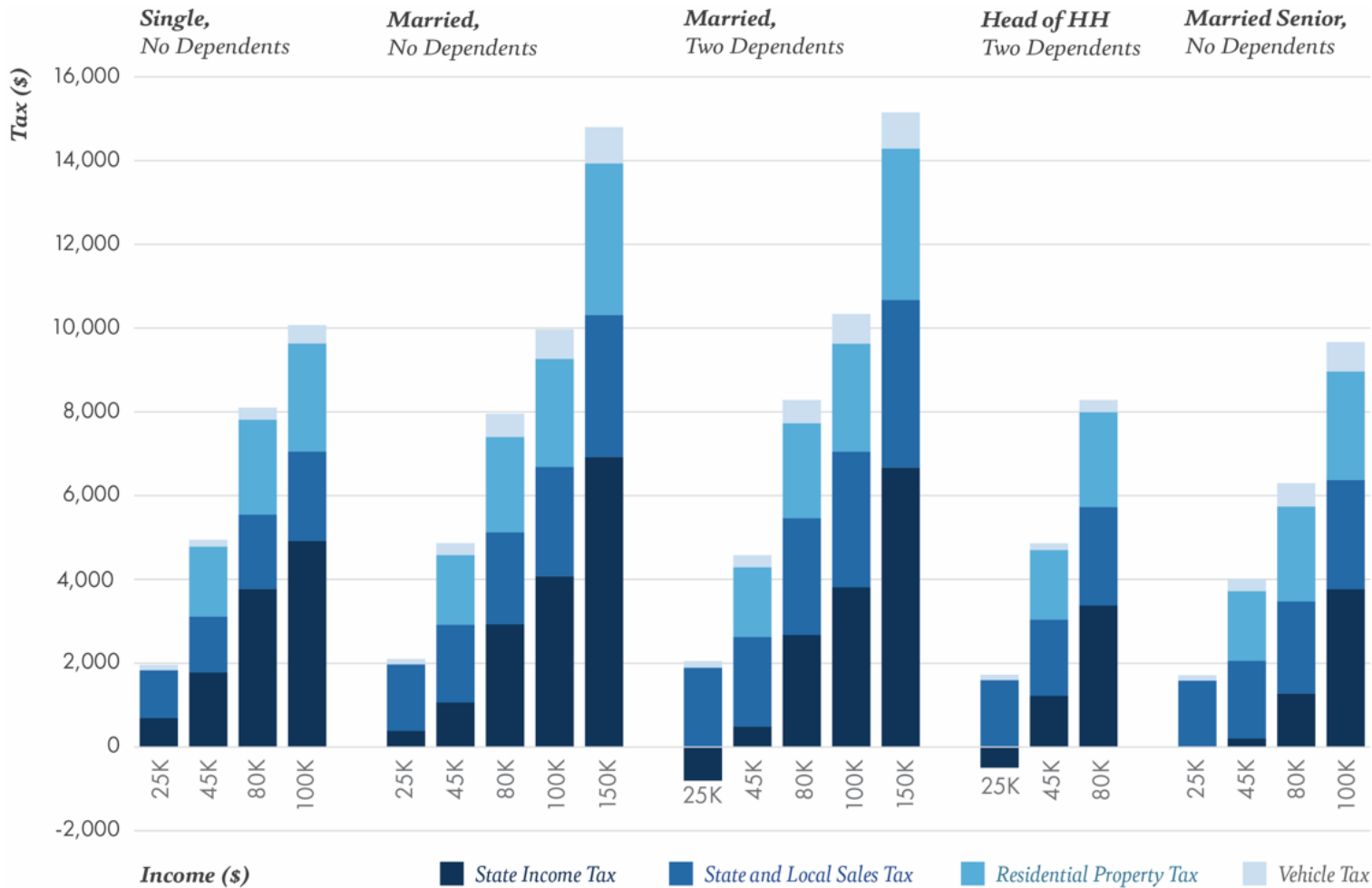
- Residential property taxes for residents of Johnson County, as well as Salina and Scott City by income level are shown left.
- Highest in Johnson County, lowest in Salina.

Property Tax as a Share of Income



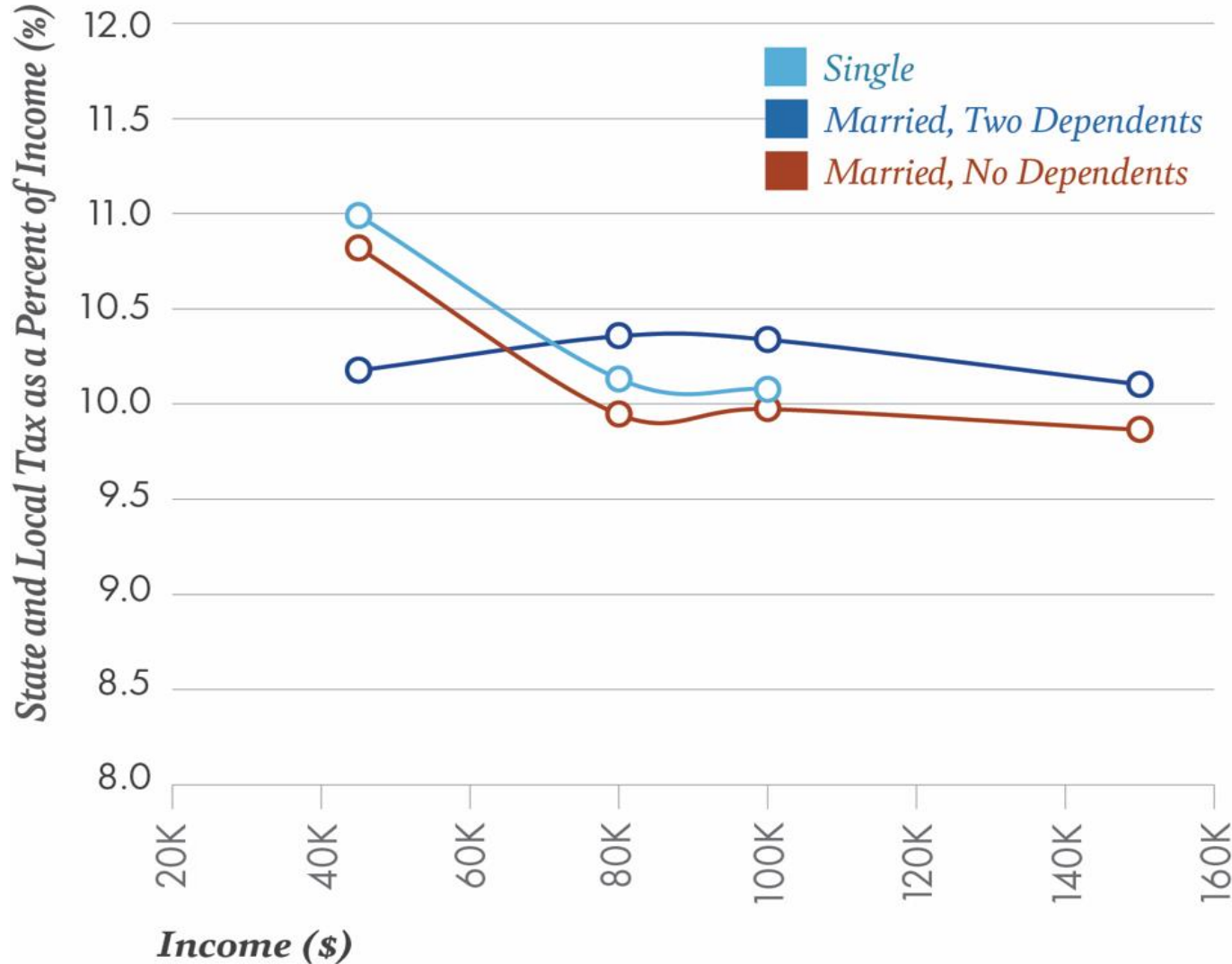
- On average, Kansans earning \$50,000 a year pay around 3.7% of their income in property taxes, while those earning 150,000 pay around 2.4%.

State and Local Taxes using Statewide Average Rates



- Kansas income, state and local sales, residential property and vehicle taxes paid by income level of various hypothetical taxpayers are shown left.
- Taxes are most progressive for households with no dependents.

State and Local Taxes as a Share of Income

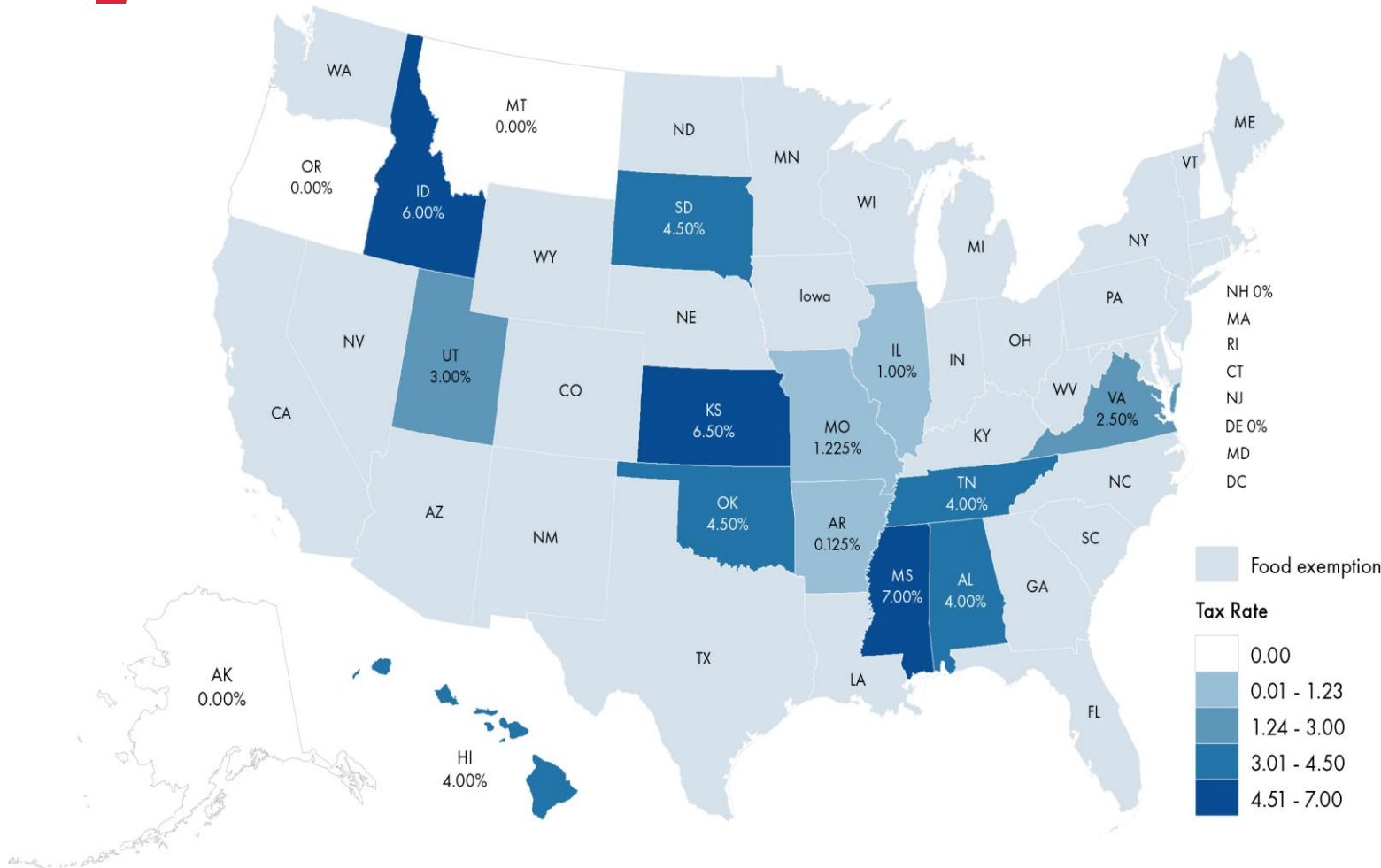


- For single and married Kansans without dependents, state and local taxes are regressive.
- For married with dependents, state taxes are flat.

The Hypothetical Taxpayer Approach to Food Sales Tax

As its highest priority, the Council strongly endorses Governor Kelly's Axe the Food Tax proposal and calls on the state legislature to immediately seize this historic opportunity to eliminate the state sales tax on food.

Food Taxes



- 13 states tax food.
- Kansas has the second highest sales tax on food in the country.
- Food taxes are regressive.

Food Tax Proposals

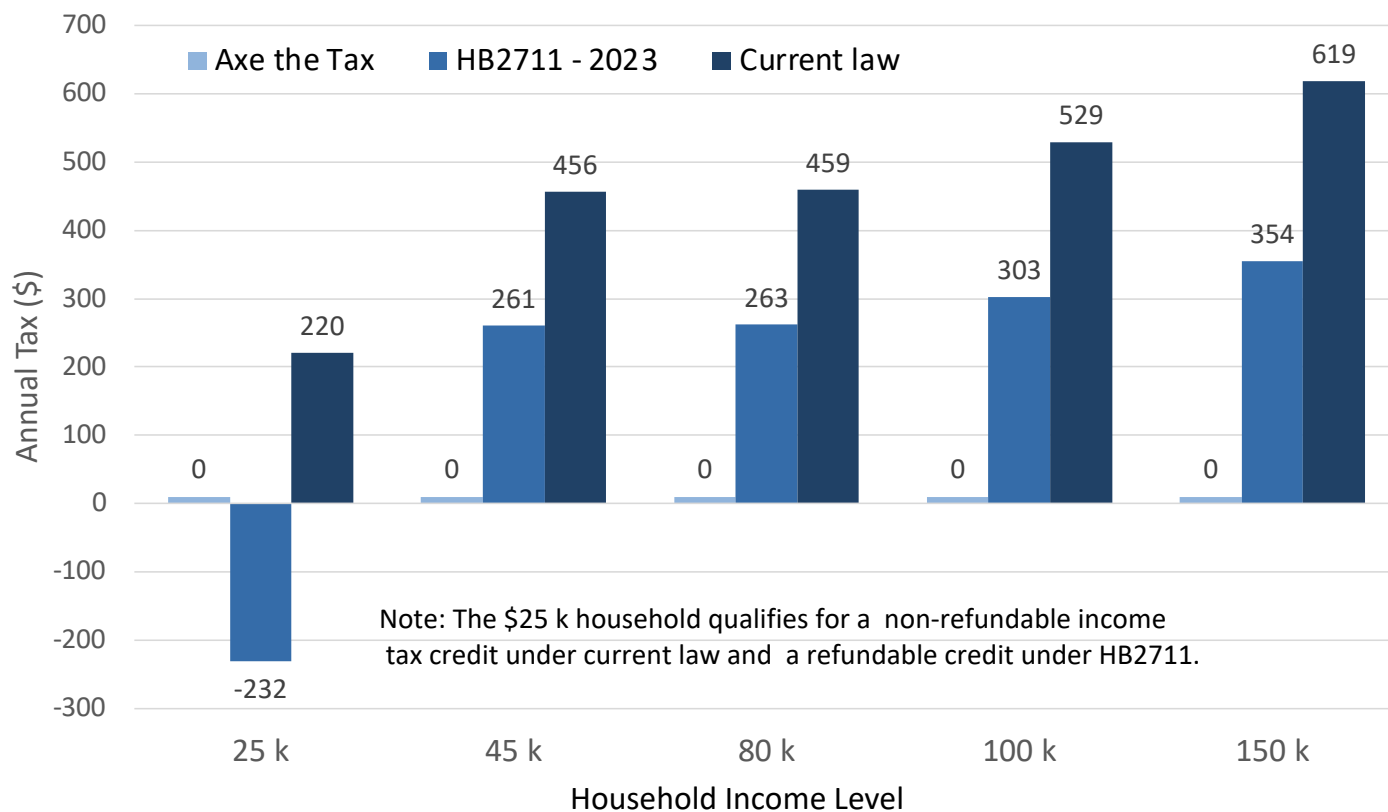
- HB 2720--Eliminates the state Food Sales Tax.
 - Saves the average Kansas family of four \$500 per year.
- HB 2711—Cuts Food tax to 3.5% in the first year.
 - Excludes Candy, Soft drinks and bottled water.
 - Refundable tax credit in 2023 of \$125 per exemption if your income < \$30,615 and:
 - Have dependents, are disabled, or above the age of 55. Tax credit available until food tax eliminated.
 - Food tax reduced 1.2% per year as long as stabilization fund > \$100 million.
 - Also reduces state sales tax to 6.3%
 - Analyze impact in 2023 assuming 3.5% reduction and refundable credit.

Effect of these proposals on Married Couple with two dependents

- Hypothetical taxpayers earn:
 - \$25,000 and spend \$7,250 on food; \$14,556 on other taxable items.
 - \$45,000 and spend \$7,013 on food; \$17,545 on other taxable items.
 - \$80,000 and spend \$7,062 on food; \$24,949 on other taxable items.
 - \$100,000 and spend \$8,136 on food; \$29,013 on other taxable items.
 - \$150,000 and spend \$9,517 on food; \$36,545 on other taxable items.
- Consumption expenditures from the Survey of Consumer Expenditures.
- Reduce food expenditures by 7.37% to account for estimated spending on soft drinks and candy.

Impact on Food Sales Taxes Paid Under Different Scenarios

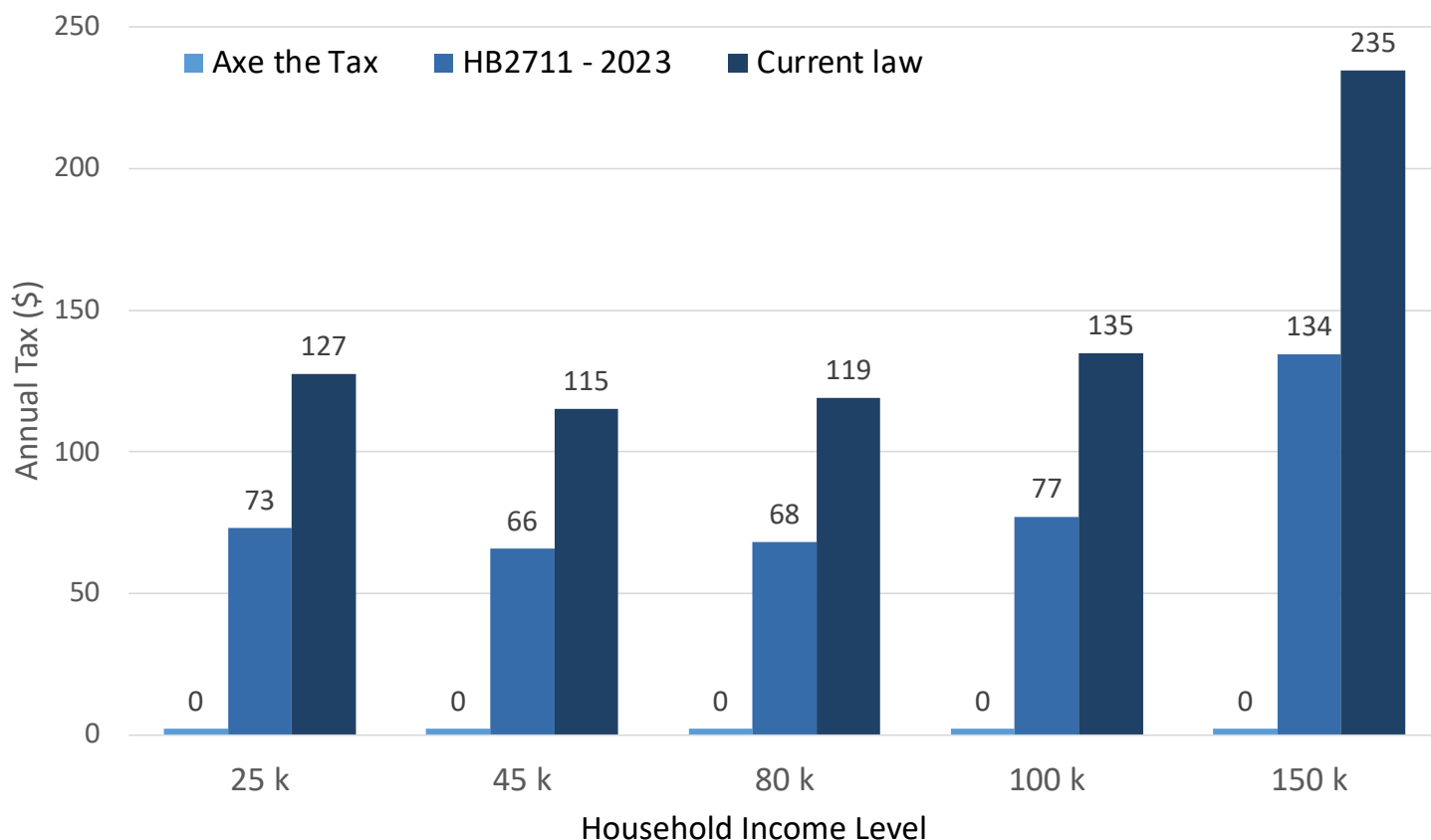
**Estimates of Alternative Plans for State-Level Sales Tax on Food
Annual Tax for Married Households with Two Dependents**



- Compare current law, to Axe the Food Tax and HB 2711 with 3.5% food tax and refundable credit.
- Food taxes are lower than current law.
- Refundable credit helps households with < \$30,615 income (adds \$232)
- However, all other households are paying the regressive food tax until it is fully eliminated.
 - Phased sales tax reductions have a history of being repealed.

Impact on Food Sales Taxes Paid Under Different Scenarios

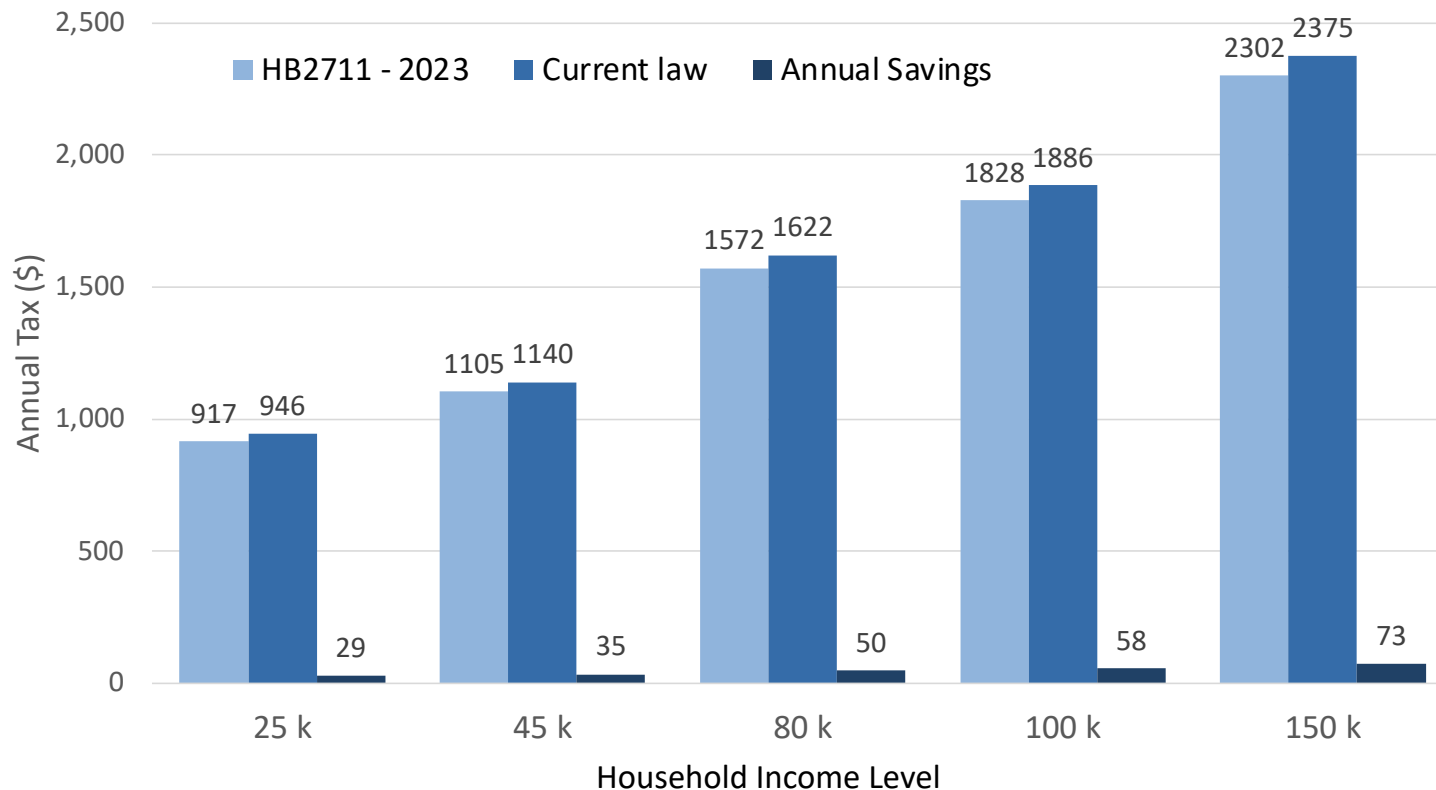
**Estimates of Alternative Plans for State-Level Sales Tax on Food
Annual Tax for Single Households with No Dependents**



- Low-income households without dependents will not receive the refundable credit.
- Food tax is reduced but not eliminated under HB 2711.
- What about the reduction in the overall sales tax rate?

Impact of Reducing Sales Tax to 6.3%

Estimates of Tax Savings for Non-Food Items under HB2711
Married Households, Two Dependents



- The small reduction in the sales tax from 6.5% to 6.3% provides very limited tax relief.
- Suppose a household spends \$10,000 on taxable goods.
 - Under current law, the sales tax is \$650.
 - Under HB 2711, the sales tax is \$630 (a savings of \$20).
- This additional sales tax reduction does not provide as much tax relief as the Axe the Food Tax proposal.

Conclusions

- Kansas has historically tried to balance income, sales and property taxes (the three-legged stool).
 - Kansas top income tax rates are somewhat lower than in other states with an income tax.
 - Kansas sales taxes are significantly higher than in other states.
- Given the sharp increase in housing prices, property taxes may become a pressing issue.
 - Kansas does not have a property tax circuit-breaker that includes renters.

Conclusions

- Demonstrated the Hypothetical Taxpayer model.
 - Used the model to compare HB 2711 to HB 2720.
 - Low-income households benefit from the refundable food tax credit.
 - However, reduction of the sales tax to 6.3% provides about \$50 in total tax relief.
 - Elimination of the food sales tax would provide more tax relief.

Concluding Recommendation

- ***The Council strongly opposes any new constitutional restrictions on state or local taxation or spending authority.*** These measures limit the ability of elected officials to respond to the needs of their constituents.

Thank You!

Thank You *Mahalo*
Kiitos
Tack
Grazie
Obrigado
Takk
Danke
Gracias
Thanks
Toda
Merci