Income Tax Reform; State Food Sales Tax Reduction Acceleration; and Residential Property Tax Exemption Increase; House Sub. for SB 169

House Sub. for SB 169 makes various changes to income, sales, and property tax law. Specifically, the bill:

- Replaces individual income tax brackets with a single rate of 5.15 percent;
- Reduces corporation income and privilege tax rates and discontinues corporate rate reductions required by the Attracting Powerful Economic Expansion Act (APEX);
- Expands the exemption on Social Security income;
- Provides for annual standard deduction increases by a cost-of-living adjustment;
- Accelerates the elimination of state sales and compensating use tax on food and food ingredients and the associated repeal of the food sales tax credit and disposition of revenue changes; and
- Increases the amount of the appraised value of residential property exempt from the statewide uniform 20 mill school finance levy to $60,000.

**Individual Income Tax Flat Rate**

The bill provides, beginning in tax year 2024, for a single individual income tax rate of 5.15 percent to be applied to all Kansas taxable income in excess of $12,300 for married individuals filing joint returns and $6,150 for all other individuals. Kansas taxable income less than those amounts is not taxed.

**Corporation Income and Financial Institutions Privilege Tax Rate Changes**

The bill reduces the tax rates applied to corporations and financial institutions.

For corporations, the normal tax rate is set at 3.0 percent beginning in tax year 2024. [Note: The normal corporate rate is currently scheduled to be reduced from 4.0 to 3.5 percent in tax year 2024 due to an agreement under APEX.]

For banks, the normal tax rate is reduced from 2.25 percent to 1.94 percent for tax year 2024 and to 1.63 percent for tax year 2025 and all years thereafter.

For trust companies and savings and loan associations, the normal tax rate is reduced from 2.25 percent to 1.93 percent for tax year 2024 and to 1.61 percent for tax year 2025 and all years thereafter.
[Note: The surtaxes on corporations and financial institutions are not affected by the bill.]

The bill repeals possible future corporate rate decreases resulting from agreements under APEX.

**Social Security Benefit Income Taxation Cliff Phase Out**

Beginning in tax year 2023, the bill expands the existing income tax exemption for federally taxable Social Security benefits available to taxpayers with $75,000 or less in federal adjusted gross income (FAGI) to phase out taxpayer eligibility for the exemption through a linear transition formula from $75,000 in FAGI to $100,000 in FAGI.

The bill provides for annual increases of $5,000 to the upper bound of the transition beginning in tax year 2024.

**Standard Deduction Increase and Cost of Living Adjustment**

The bill, beginning in tax year 2024, provides for all Kansas individual income tax standard deduction amounts to be annually increased by the cost-of-living adjustment determined under Section 1(f)(3) of the Internal Revenue Code.

**Food Sales Tax Changes**

The bill accelerates the elimination of the state sales and compensating use tax rate on food and food ingredients to January 1, 2024.

The bill raises the percentage of sales tax revenue distributed to the State Highway Fund to 18.0 percent of sales and use tax receipts beginning January 1, 2024.

The bill sunsets the food sales tax credit at the end of tax year 2023.

[Note: Under prior law, the rate was scheduled to be reduced to 2.0 percent on January 1, 2024, and to 0.0 percent on January 1, 2025; the proportion of sales and use tax receipts distributed to the State Highway Fund was scheduled to be increased to 18.0 percent beginning January 1, 2025; and the credit was scheduled to be sunset after tax year 2024.]

**School Finance Levy Residential Exemption**

The bill increases, beginning in tax year 2023, the amount of residential property exempt from the statewide uniform 20 mill school finance levy from $40,000 to $60,000 of appraised value.

A formula to increase the amount of the exemption based upon the statewide average increase in residential valuation over the preceding ten years is delayed in implementation from tax year 2023 to 2024.