

House Committee on Taxation  
Written Testimony  
March 20, 2017



## FLAT TAX ON INDIVIDUAL INCOME: FAQ

### WHAT IS A FLAT TAX ON INDIVIDUAL INCOME?

- A flat tax on individual income is a tax structure with a constant marginal rate.

### WHICH STATES HAVE A FLAT TAX ON INDIVIDUAL INCOME?

- As of Tax Year 2016<sup>1</sup>
  - Pennsylvania – 3.07%
  - Indiana – 3.3%
  - Illinois – 3.75%
  - Michigan – 4.25%
  - Colorado – 4.63%
  - Utah – 5.0%
  - Massachusetts – 5.1%
  - North Carolina – 5.75%

### DOES A FLAT TAX BURDEN LOW-INCOME PERSONS AND FAVOR HIGH-INCOME PERSONS?

- It depends on the structure of the flat tax. A “true” flat tax (no deductions, allowances, or exemptions) is neither a progressive or regressive tax, it is proportional or flat. However if the flat tax is structured to include a standard deduction, or contained a personal credit to name a few, then the tax effectively becomes a progressive tax, meaning that those with higher incomes pay a larger share of their income in the tax.

### DOES A FLAT TAX DAMAGE ECONOMIC GROWTH?

- It depends on the structure of the flat tax. Among economists, a flat tax should be a tax that excludes the taxation of savings and investment income.<sup>2</sup> This makes the flat tax efficient, eliminates double taxation on saving and investment, and does minimal damage to the economy. Excluding savings and investment from tax encourages investment and productivity. As a result the economy becomes larger in the future.

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<sup>1</sup> Federation of Tax Administrators State Individual Income Tax Rates 2016, URL: [http://www.taxadmin.org/assets/docs/Research/Rates/ind\\_inc.pdf](http://www.taxadmin.org/assets/docs/Research/Rates/ind_inc.pdf)

<sup>2</sup> Robert E. Hall, Alvin Rabushka of Stanford University, URL: <http://www.hooverpress.org/The-Flat-Tax-Second-Edition-P470.aspx>

## CHANGES IN TAX LIABILITY

HB2385

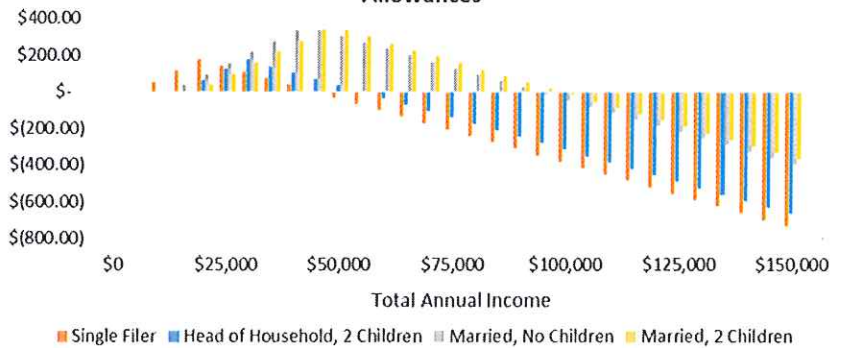
Under a 3.9% flat tax on individual income and the standard deductions and personal allowances, **some Kansans will see a decrease in their tax liability while some will see an increase** relative to our current individual income tax rate structure.

Kansans to see an increase in tax liability

- Single filers making more than \$5,250/year but less than \$45,965/year.
- Head of Household filer with two children making more than \$14,500/year but less than \$55,215/year.
- Married filing joint with no children making more than \$12,000/year but less than \$93,429/year.
- Married filing joint with two children making more than \$16,500/year but less than \$97,929/year.

### Changes in Tax Liability By Annual Income

3.9% Flat Individual Income Tax Rate, Std Deductiouns, Allowances



Source: Kansas Department of Revenue, & Author's Calculations

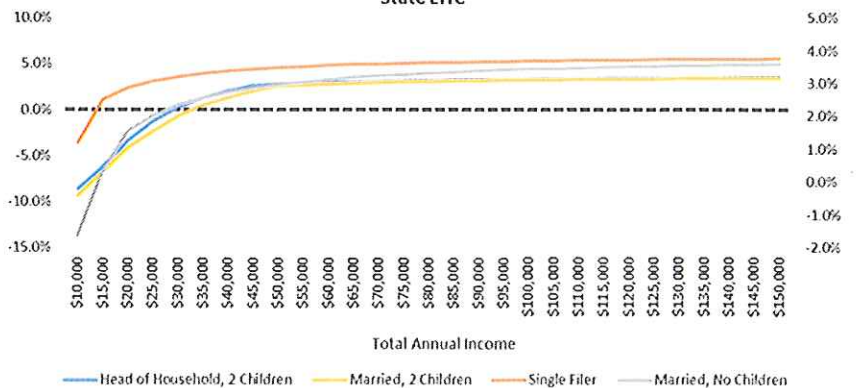
Observing the effective tax rate allows one to observe how progressive/regressive a 3.9% flat tax on individual income is.

Under HB 2385, lower income Kansans will continue to pay a smaller share of their income in income taxes than those with higher income.

This is because of the prevalence of standard deductions and personal allowances and the refundable earned income tax credit.

### Effective Tax Rate By Annual Income

3.9% Flat Individual Income Tax Rate, Std Deductiouns, Allowances and 2016 State EITC



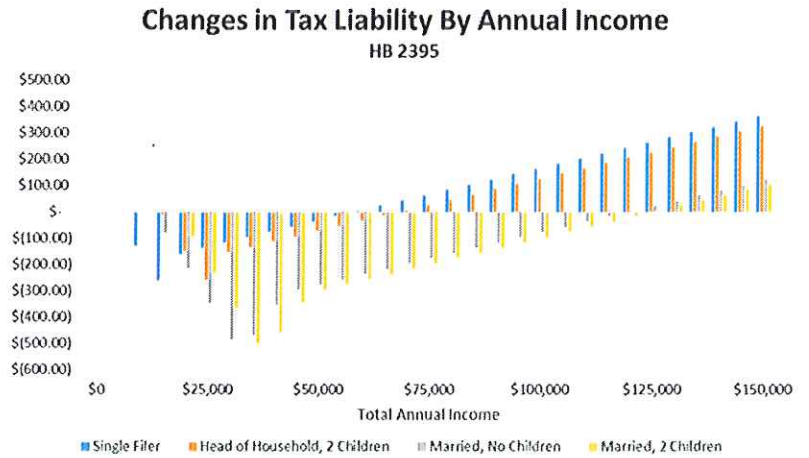
Source: Kansas Department of Revenue, & Author's Calculations

HB2395

HB 2395 imposes a 5.0% flat tax rate but also creates an exclusion of income up to \$10,000/year if single and \$20,000 if married filing joint. This exclusion can be considered as the imposition of a bottom bracket with a tax rate of 0%.

Kansans to see an increase in tax liability

- Single filers making more than \$59,000/year.
- Head of Household filer with two children making more than \$68,250/year.
- Married filing joint with no children making more than \$119,500/year.
- Married filing joint with two children making more than \$124,000/year.

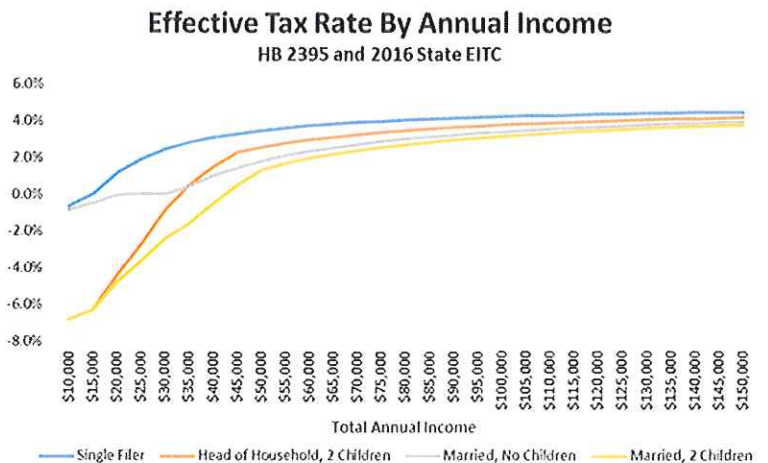


Source: Kansas Department of Revenue, & Author's Calculations

Observing the effective tax rate allows one to observe how progressive/regressive a 5.0% flat tax on individual income is.

Under HB 2395, lower income Kansans will continue to pay a smaller share of their income in income taxes than those with higher income.

This is because of the prevalence of standard deductions and personal allowances and the refundable earned income tax credit.



Source: Kansas Department of Revenue, & Author's Calculations