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To: House Taxation Committee
Date: March 14th, 2018
Subject: Support for HB 2761.

Honorable Chairman Johnson and members of the House Taxation Committee:

On behalf of the Kansas Association of REALTORS® (KAR), thank you for the opportunity to appear before you today in strong support of HB 2761, which would allow Kansas income tax filers to take advantage of Kansas itemized deductions regardless of whether they itemize or take the standard deduction on their federal filing.

KAR represents over 9,500 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. Furthermore, homeownership rivals any other vehicle of wealth creation for citizens regardless of starting means.

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.

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. HB 2761 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.

Federal Tax Reform of 2017

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. Due to home prices as they relate to mortgage financing and valuations for property taxes, a majority of Kansas homeowners will not see an impact from these limitations as would other coastal states with high home prices and high state and local taxes.

However, 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 2015, nearly 250,000 Kansans took the Mortgage Interest Deduction (MID) and over 300,000 claimed the Property Tax Deduction (PTD). Of the 729,000 owner occupied houses in 2016, 60% had a mortgage.

It is important that Kansas homeowners continue to be able to claim these deductions regardless of whether they are in a position to itemize federally. If the Legislature does not advance HB 2761, a significant number of Kansans will lose the tax relief the Kansas itemized deductions afford.

Recent History of Kansas Itemized Deductions

In 2012, as part of the early tax packages that were recommended by the administration at the time, the Kansas itemized deductions were slated 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, MID and 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 offered 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. Make no mistake, we would encourage full restoration now, however we continue to recognize the fiscal realities currently present. Therefore, during the 2017 session, KAR was willing to work with lawmakers to accomplish the goal of full restoration of the PTD and MID by 2020.

Closing

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. These deductions not only make homeownership more affordable, they recognize the critical importance of the housing industry to the Kansas economy. For all of the reason stated herein, KAR respectfully requests that the House Taxation Committee act favorably on the provisions of HB 2761.

KAR would like to thank you for your tireless work on tax policy this session and your willingness to listen to our concerns and ideas surrounding this and other issues. Thank you for your consideration of our testimony. I am happy to stand for questions at the appropriate time.

Respectfully submitted,

A handwritten signature in black ink that reads "Patrick Vogelsberg". The signature is written in a cursive style with a large initial "P" and a stylized "V".

Patrick Vogelsberg, 
Vice President of Governmental Affairs
Kansas Association of REALTORS®