

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.

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