



March 21, 2023

Emily Fetsch, Director of Fiscal Policy
Kansas Action for Children
Verbal Testimony in Opposition to HB 2457
House Committee on Taxation

Chairperson Smith and members of the Committee:

Thank you for the opportunity to provide testimony in opposition to HB 2457. Kansas Action for Children is a nonprofit advocacy organization working to make Kansas a place where every child has the opportunity to grow up healthy and thrive. We work across the political spectrum to improve the lives of Kansas children through bipartisan advocacy, partnership, and information-sharing on key issues, including early learning and education, health, and economic security for families.

The state has seen increased tax receipts in recent years, with the state budget including millions of dollars in surplus revenue. The temporary, higher receipts have led to several tax cut proposals, including HB 2457, which would make the tax code favor high-income Kansans even more.

Lowest-income Kansans pay the highest effective tax rate.

Even with the current graduated income tax structure, the total effective tax rate for the highest-income Kansans is substantially lower than for other income groups.

- While the lowest 20 percent of Kansas income range residents have an effective total tax rate (combining income, property, and sales taxes) of 10.7 percent, the top 1 percent has an effective tax rate of just 7.4 percent.
- A graduated income tax structure works to offset the regressive nature of sales and property taxes. For example, the lowest 20 percent of Kansans by income spend 7 percent of their household earnings on sales taxes compared to just 1 percent among the top 1 percent income range.
- Similarly, the lowest income Kansans have more than twice the effective property tax rate (4.1 percent) than the top 1 percent (1.8 percent).
- Income tax is the only Kansas tax that currently asks the wealthy to pay more. All other taxes are regressive and cost low-income Kansas households a higher portion of their income.

The top 1 percent will get a tax cut more than 30 times the tax cut that middle-income Kansas household will receive.

Meanwhile, the top 1 percent, or households making more than \$622,000 (with an average income of \$1.75 million), would receive an average tax cut of \$11,628 under the new structure, while the lowest-income Kansans making less than \$25,000 (with the average income in the bottom quintile of \$14,000) would receive less than \$121.

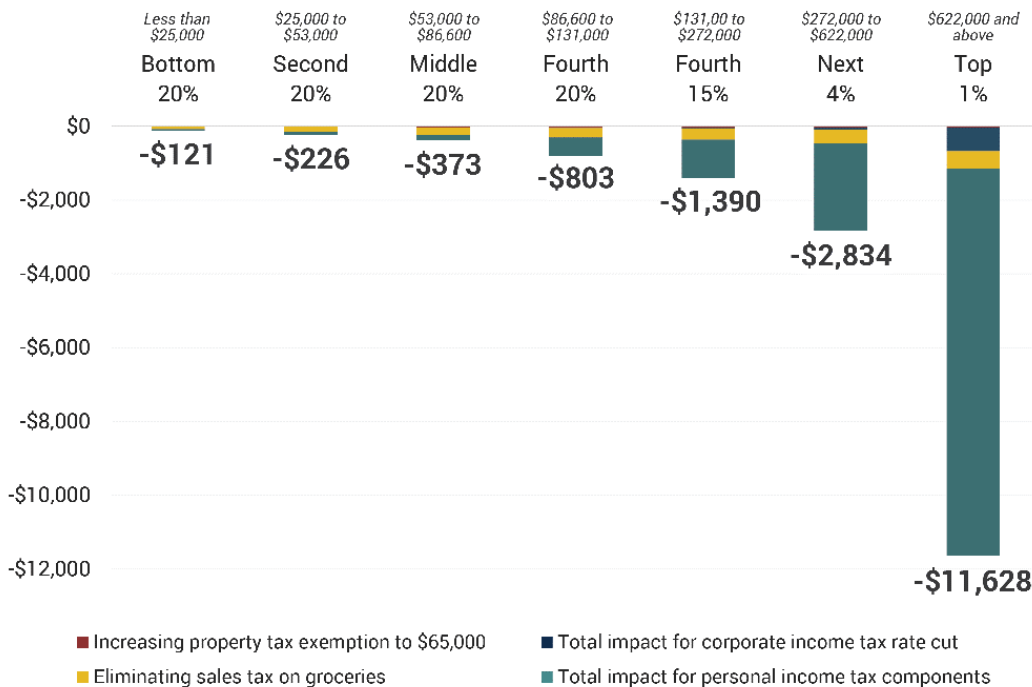
Put another way, the top one percent of Kansas households would get a tax cut nearly the same size (\$11,628) as the average household income for the bottom 20 percent of Kansas tax filers (\$14,000).

The proposed 4.95 percent flat tax proposal in HB 2457 has an exemption for the first \$11,250 (married filing jointly filers) or \$5,624 (all other individuals). While all Kansas taxpayers would see an income tax cut under the proposed flat tax structure, it is the highest-income Kansans who would benefit the most from the flat tax component.

The flat tax component alone provides roughly \$10,000 of the \$11,628 tax cut the top one percent would receive.

Kansas HB 2457 overwhelmingly benefits the state's wealthiest

Average total tax cut by income group



Source: Institute on Taxation and Economic Policy tax model, March 2023

According to modeling provided by the Institute on Taxation and Economic Policy, this proposal has an overall **price tag of nearly \$1.2 billion** when fully implemented. This revenue loss estimate is conservative, because it does not account for all of the property tax components and the cost-of-living adjustment to the standard deduction. In addition, the impact of the state-level grocery sales tax elimination is likely understated (given inflation and rising food costs).

This bill would lead to a \$1.2 billion loss in revenue, when recent financial events have highlighted the potential of economic insecurity and recession. Instead of funding child care, health care, and special education, this bill seeks to deplete state revenues and give massive tax breaks to the highest-income households.

As Kansas knows all too well, big income tax changes are difficult to reverse. This proposal's significant revenue-reducing cost creates an environment where other tax increases (property, sales, and excise) would need to be implemented to make up for the declining income tax contributions. This would cost low- and middle-income Kansans far more than the tax cuts they would receive from this flat tax proposal.

Kansas Action for Children opposes a flat tax system. Lawmakers must champion tax reform that strengthens Kansas' ability to invest in the future, especially with the looming possibility of a recession. A flat tax will limit the state's ability to provide crucial programs and services. It equates to yet another large tax break for Kansans with the most financial resources, and the giant price tag jeopardizes investments in schools, roads, and public health and safety that build a strong Kansas economy.

Thank you for the opportunity to share information with you today. Feel free to reach me if you have any questions at emily@kac.org.