



March 3, 2025

Nathan Kessler, Tax Policy Advisor  
Kansas Action for Children  
Verbal Testimony in Opposition to SB 277  
Senate Committee on Assessment and Taxation

Chairwoman Tyson and members of the Committee:

Thank you for the opportunity to testify in opposition to SB 277, which would exempt up to \$25,000 of tipped wages from state income tax.

Kansas Action for Children recognizes the real need for cost-of-living relief, especially for low-income households. However, an income tax exemption for tipped wages is a short-sighted approach for delivering this relief. A tax exemption for tips is generally regarded as an impractical and unnecessary tax policy because it offers very little tax relief to the intended demographic and opens the floodgates for abuse. We believe there are superior ways to address the needs of working-class Kansans, and this legislation distracts from those conversations.

While eliminating taxes on tips has become a popular talking point, economists and tax experts across the political spectrum generally regard it as bad tax policy. The Tax Foundation calls it “a poorly targeted change, with the potential for unintended consequences for both consumers and the federal budget.”<sup>1</sup> This is no less true at the state level.

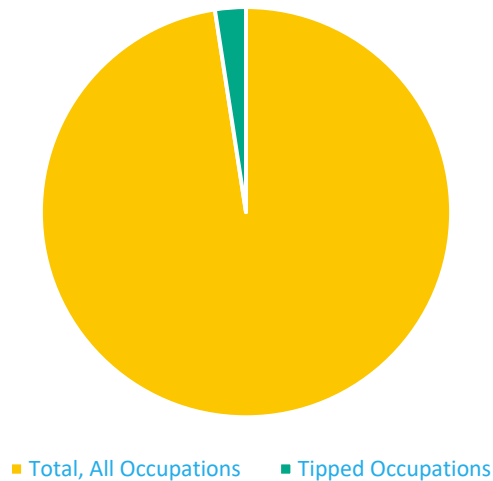
To understand just how narrowly targeted this policy is, we can look to occupational employment data from the Kansas Department of Labor. By adding total employment of bartenders; waiters and waitresses; other food servers; hosts and hostesses, restaurant, lounge, and coffee; hairdressers, hairstylists, and cosmetologists; manicurists and pedicurists; and concierges in Kansas, we see that traditionally tipped employees make up just 2.5% of total employment in the state.<sup>2</sup>

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<sup>1</sup> Muresianu, A. (July 23, 2024). *Frustrated with Tipping? No Tax on Tips Could Make It Worse*. Tax Foundation.

<sup>2</sup> Kansas Department of Labor. (2024). *Labor Market Information Services and the Bureau of Labor Statistics; Occupational Employment and Wage Statistics*.

## Kansas Tipped Occupation Employment



Source: Kansas Department of Labor, Labor Market Information Services, 2024 Kansas Wage Survey

Besides being a very small percentage of the overall workforce, the median annual income for these 35,000 employees is approximately \$29,350.<sup>3</sup> This means that after deductions, credits, and exemptions, many of these workers do not actually have a tax liability or it is so small that exempting their tipped income will offer little meaningful relief.

The likely ineffectiveness of exempting tips from taxation is just the tip of the iceberg. This policy also would violate two core principles of tax policy: simplicity and equity. According to the Institute on Taxation and Economic Policy (ITEP), “[c]omplicated tax rules make the tax system difficult for citizens to understand” and “makes it harder for governments to monitor and enforce tax collections.”<sup>4</sup> The last thing the tax code needs is more complexity,

Furthermore, the issue of inequity in the tax code created by exempting tipped wages cannot go unaddressed. The Brookings Institution makes an excellent case that “[e]xempting income earned as tips for a waitress, but not wages earned by a teacher, ensures that two taxpayers with the same level of income would pay markedly different amounts of tax.”<sup>5</sup>

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<sup>3</sup> Kansas Department of Labor. (2024). *Labor Market Information Services and the Bureau of Labor Statistics; Occupational Employment and Wage Statistics*.

<sup>4</sup> Institute on Taxation and Economic Policy. (December 1, 2012). *Tax principles: Building Blocks of a Sound Tax System*.

<sup>5</sup> Berlin, I., & Gale, W. (September 17, 2024). *No tax on tips: An answer in search of a question*.

However, it is difficult to say how long this inequity would persist because “[g]iving one type of income preferential treatment automatically creates an incentive for taxpayers to find ways to label their income that way.”<sup>6</sup>

In practice, this means that lobbyists from across the country will be coming before the tax committees to make the case for why the lawyers, accountants, or doctors they represent should be allowed to classify their wages as tips. This is a slippery slope to finding ourselves in the same position as when passthrough business income was exempted from taxation.

If the goal is to put more money in the pockets of tipped workers, there are much better ways to do that. The most efficient would be to raise the minimum wage for those workers in Kansas; the Legislature could also raise the standard minimum wage at the same time. Other alternatives include a larger state match of the federal Earned Income Tax Credit, reinstatement of renters as eligible for the Homestead Program, and the creation of a state child tax credit.

Of the many ways to offer tax relief to low-income workers, exempting tipped wages is not the right solution. Kansas is better off letting this discussion take place at the federal level and making a decision about conformity when the time is right. Let’s not get out ahead of the rest of the country in another potentially disastrous tax experiment.

Please contact me at [nathan@kac.org](mailto:nathan@kac.org) if I can be of further assistance.

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### *About Kansas Action for Children*

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.

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<sup>6</sup> Ibid.