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Written-only proponent testimony for SB 377
Senate Committee on Assessment and Taxation

Chairwoman Tyson and members of the Committee:

Thank you for the opportunity to provide proponent testimony in support of SB 377, which includes several meaningful tax provisions that would help Kansas children and families.

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.

Given that the Governor's package includes several components (accelerating the food sales tax exemption to April 1, exempting Social Security from income tax, expanding the residential homestead exemption from the 20 mills to \$100,000, and providing a privilege tax rate reduction) that received widespread legislative support in the bill that was recently vetoed – suggestive of some growing consensus by policymakers – we thought it might be best to concentrate our testimony on the extant issues of her proposal that have not already been approved by the Legislature this session.

We believe several of those proposed changes would be especially helpful to Kansas families, including the child and dependent care credit expansion, sales tax exemptions for diapers and feminine hygiene products, the back-to-school sales tax holiday, and a significant increase of the standard deduction for individual income taxpayers.

Income Tax Provisions

As for the standard deduction increase, this expansion is especially necessary given the itemized deduction option adopted two years ago that studies show benefited primarily the upper 18 percent of all filers. This \$90.5 million of additional tax relief in FY 2025 that is associated with expanding the standard deduction is well in excess of the \$15.3 million they would receive by indexing standard deductions under the vetoed bill. This is in addition to the \$10.0 million Kansas families would receive by a modest increase in the personal exemption, followed by subsequent indexation of that provision.

And as we look at tax code changes, targeted tax credits for Kansas families would help many afford the basics, one of which is child care expenses. KAC is certainly on the record as a proponent of expanding the child and dependent care credit, as you may recall from our testimony on SB 264 last week.

Sales Tax Provisions

The proposed exemptions for diapers and feminine hygiene products would be especially helpful in continuing to reduce the overall regressivity of the sales tax for Kansas families.

The back-to-school sales tax holiday is a measure that has been adopted in several other states, and as many proponents have noted, there may be an additional economic development reason for finally enacting one in Kansas, given that two of our neighbors (Missouri and Oklahoma) also have one in place.

Property Tax Provisions

In addition to the residential homestead expansion, we want to acknowledge that the Governor's overall proposal also includes \$54 million in funding that would go through the LAVTRF program – although we realize that particular item is not being addressed in this bill at this time.

The Committee could consider additional property tax relief that would return eligibility to renters for the homestead credit program. Because of the eligibility requirements, this credit program goes beyond aiding only senior citizens and can also include families with children if they meet the other income requirements. Because of the high cost and limited availability of housing, many families find themselves renting or leasing rather than owning homes. Expansion of the credit to include renters once again is a proposal the Committee should seriously consider this session.

Additional Income Tax Relief

In anticipation of questions comparing and contrasting the Governor's plan with the vetoed measure, the other big difference relates to the proposed flat tax of 5.25 percent that would replace the current three-bracket individual income tax system that had been restored in 2017. When fully annualized, that measure would reduce Kansas income tax liability by more than \$300 million each year.

If policymakers were to collectively determine that the ongoing budget cost were to not imperil the state's long-term stability, KAC believes there are many other ways beyond the flat tax to provide income tax relief that would be of greater benefit to far more Kansas families. About 52 percent of the tax benefit under the flat tax proposal in HB 2284 would flow to the upper 3 percent of the filers, or those with \$250,000 and above of annual KAGI. It is important

to recall that many of these same taxpayers received a full four-year state income tax holiday on their non-wage business income streams during the oft-discussed tax changes initially enacted more than a decade ago. These taxpayers are also the ones most likely benefiting from the SALT Parity Act.

We believe it's time to focus on working families with low- and middle-incomes for the next round of tax relief.

One idea that KAC is encouraging be explored is a refundable child tax credit of up to \$600 per qualifying child, patterned after a recently enacted similar credit in New Mexico. While we do not yet have an official Kansas Department of Revenue fiscal note on this, some preliminary analysis of this idea from the Institute on Taxation and Economic Policy suggests that its annual impact might be only about half as much as the flat tax.

Alternatively, if income tax rate relief is the decision ultimately embraced, we would note that a bill introduced earlier this session by the House Committee on Taxation that reduces all three current brackets would provide far greater relief for middle- and working-class families – at about the same cost – than the flat tax.

Thank you for your consideration of this bill, as it provides a meaningful impact to working parents across the state. We ask you to favorably move this bill out of your committee this year and advocate for the policy to cross the finish line during the 2024 legislative session.

If I can be of further assistance, please contact me at adrienne@kac.org.