

SESSION OF 2024

**SUPPLEMENTAL NOTE ON HOUSE SUBSTITUTE FOR
SENATE BILL NO. 300**

As Recommended by House Committee on
Taxation

Brief*

House Sub. for SB 300 would make various changes to income, sales, and property tax law. Specifically, the bill would:

- Restructure individual income tax brackets with reduced tax rates;
- Phase out the individual income taxation of Social Security benefits;
- Increase the standard deduction and personal exemption amounts and provide for future increases by a cost-of-living adjustment;
- Reduce privilege tax rates;
- Reinstate the transfer from the State General Fund (SGF) to the Special City and County Highway Fund and abolish the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund; and
- Increase the amount of the appraised value of residential property exempt from the statewide uniform school finance levy and reduce the mill levy.

*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>

Individual Income Tax Brackets and Rates

The bill would restructure the Kansas individual income tax brackets, beginning in tax year 2024. For married individuals filing jointly, taxable income of \$0 to \$14,000 would be taxed at 0.0 percent, taxable income from \$14,001 to \$60,000 would be taxed at 5.2 percent, and taxable income of \$60,001 and above would be taxed at 5.65 percent.

For all other filers, taxable income of \$0 to \$7,000 would be taxed at 0.0 percent, taxable income from \$7,001 to \$30,000 would be taxed at 5.2 percent, and taxable income of \$30,001 and above would be taxed at 5.65 percent.

Social Security Benefit Taxation Phase Out

For tax year 2024, the bill would expand the existing income tax exemption for federally taxable Social Security benefits available to taxpayers with \$75,000 or less federal adjusted gross income (FAGI) to phase out taxpayer eligibility for the exemption through a linear transition formula from \$75,000 in FAGI to \$125,000 in FAGI.

For tax year 2025, the phase out of eligibility for the exemption would be extended to \$175,000 in FAGI.

For tax year 2026, the phase out of eligibility for the exemption would be extended to \$275,000 in FAGI.

For tax year 2027 and all years thereafter, all Social Security benefits would be exempt from Kansas income tax.

Standard Deduction and Personal Exemption Amounts Increase and Cost-of-living Adjustments

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 for tax year 2024. These

amounts would be further increased by the cost-of-living adjustment determined under Section 1(f)(3) of the Internal Revenue Code for tax years 2025 and 2026.

The bill would increase the personal exemption amount from \$2,250 to \$2,320 in tax year 2024 and provide for personal exemption amounts to be increased by the cost-of-living adjustment determined under Section 1(f)(3) of the Internal Revenue Code for tax years 2025 and 2026.

The increase and cost-of-living adjustments to the personal exemption amounts would also apply to the additional personal exemption amount for veterans who are 100.0 percent permanently disabled.

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 1.63 percent for tax year 2025 and all years thereafter.
- For trust companies and savings and loan associations, the normal tax rate would be reduced from 2.25 percent to 1.61 percent for tax year 2025 and all years thereafter.

[*Note:* The surtaxes on financial institutions would not be affected by the bill.]

Local Government Transfers

The bill would reinstate, effective for fiscal year 2025, the transfer from the SGF to the Special City and County Highway Fund based on the SGF receipts from motor carrier property taxes and commercial vehicle fees. [*Note:* This transfer is scheduled to resume in FY 2026 under current law.]

The bill would abolish the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund and eliminate statutory transfers from the 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 \$80,000 of appraised value.

A formula to increase the amount of the exemption based upon the statewide average increase in residential valuation over the preceding ten years would again take effect in 2025.

The bill would reduce the uniform school finance levy from 20 mills to 18 mills in tax year 2024.

Background

The bill was introduced by the Senate Committee on Taxation at the request of Senator Blasi and, as introduced, concerned privilege tax rates. The House Committee on Taxation removed the contents of the bill and inserted the amended contents of HB 2844, the background of which follows below.

HB 2844

HB 2844 was introduced by the House Committee on Taxation at the request of Representative A. Smith.

House Committee on Taxation

In the House Committee hearing, **proponent** testimony was provided by representatives of the Kansas Chamber, Kansas Farm Bureau, Kansas Livestock Association, and Kansas Policy Institute. The proponents generally stated the

bill would provided broad-based tax relief and represented a compromise of various other tax plans.

Written-only proponent testimony was provided by representatives of Kansas Association of Realtors, Kansas Bankers Association, and National Federation of Independent Business-Kansas.

Neutral testimony was provided by representatives of the Institute for Policy and Social Research at the University of Kansas and the Kansas National Education Association.

Written-only neutral testimony was provided by representatives of the Kansas Association of Counties and Kansas Association of School Boards.

No other testimony was provided.

The House Committee amended the bill to insert the provision reinstating the transfer to the Special City and County Highway Fund.

Fiscal Information

According to the Department of Revenue, the tax provisions of the substitute bill are estimated to have the following fiscal effects:

	(Dollars in Millions)				
	FY	FY	FY	FY	FY
	2025	2026	2027	2028	2029
Income Tax Rates, Std Ded, Pers Ex	\$ (211.5)	\$ (177.2)	\$ (187.5)	\$ (189.3)	\$ (191.2)
Social Security Phase Out	(50.9)	(65.4)	(96.2)	(128.1)	(131.9)
Privilege Tax Reductions	(2.6)	(7.4)	(7.4)	(7.4)	(7.4)
<i>Subtotal State General Fund</i>	<i>(265.0)</i>	<i>(250.0)</i>	<i>(291.1)</i>	<i>(324.8)</i>	<i>(330.5)</i>
Res. Property Tax Ex and Mill Levy	(147.0)	(154.1)	(161.6)	(169.4)	(177.7)
<i>Subtotal All Other State Funds</i>	<i>(147.0)</i>	<i>(154.1)</i>	<i>(161.6)</i>	<i>(169.4)</i>	<i>(177.7)</i>
Total All Funds	<u>\$ (412.0)</u>	<u>\$ (404.1)</u>	<u>\$ (452.7)</u>	<u>\$ (494.2)</u>	<u>\$ (508.2)</u>

Additionally, the reinstatement of the transfer to the Special City and County Highway Fund would increase SGF expenditures by approximately \$11.5 million in FY 2025. [Note: Statute provides for this transfer to be a demand transfer, which is recorded as an expenditure from the SGF.]

According to the fiscal note prepared by the Division of the Budget on HB 2844, as introduced, the elimination of transfers to the Local Ad Valorem Tax Reduction Fund and the County and City Revenue Sharing Fund would increase SGF revenues by approximately \$156.0 million in FY 2026 and \$158.0 million in FY 2027, as these transfers are currently scheduled to resume beginning in FY 2026.

The fiscal effects associated with the Social Security income taxation exemption, standard deduction increases, privilege tax rate changes, and school finance levy residential exemption increases are partially reflected in *The FY 2025 Governor's Budget Report*.

Taxation; income tax; property tax; rates; brackets; Social Security benefits; standard deduction; personal exemption; privilege tax; residential exemption; mill levy; Special City and County Highway Fund; Local Ad Valorem Tax Reduction Fund