

SESSION OF 2024

SUPPLEMENTAL NOTE ON SENATE BILL NO. 539

As Amended by Senate Committee of the Whole

Brief*

SB 539, as amended, would make various changes to income and property tax law. Specifically, the bill would:

- Replace individual income tax brackets with a single rate;
- Exempt Social Security income from the individual income tax;
- Increase the personal exemption amounts;
- Increase the standard deduction amount for single filers;
- Provide for annual personal exemption amount and standard deduction increases by a cost-of-living adjustment;
- Create a child tax credit;
- Reduce privilege tax rates;
- Accelerate the elimination of state sales and compensating use tax on food and food ingredients and the associated disposition of revenue changes; and
- Increase the amount of the appraised value of residential property exempt from the statewide uniform 20-mill school finance levy to \$100,000.

*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 Single Rate

The bill would provide for a single individual income tax rate to be set at:

- 5.7 percent in tax year 2024;
- 5.65 percent in tax year 2025;
- 5.6 percent in tax year 2026;
- 5.55 percent in tax year 2027;
- 5.5 percent in tax year 2028; and
- 5.45 percent in tax year 2029 and all future tax years.

The bill would eliminate a provision that eliminates any tax owed for single filers with taxable income less than \$2,500 and married couples filing joint returns with taxable income less than \$5,000.

Personal Exemption Amount Increase

The bill would increase the personal exemption allowance amount, currently set at \$2,250 for all persons on the return, to \$22,000 for married couples filing joint returns, \$11,000 for all other filers, and an additional \$3,000 for each dependent listed on the return.

Social Security Benefit Exemption

Beginning in tax year 2024, the bill would exempt all Social Security benefits from the individual income tax.

Standard Deduction Single Filer Increase

The bill would, beginning in tax year 2024, increase the Kansas individual income tax standard deduction amount for single filers from \$3,500 to \$4,000.

Cost-of-Living Adjustments

The bill would, beginning in tax year 2025, provide for all Kansas individual income tax standard deduction amounts and personal exemption allowance amounts to be annually increased by the cost-of-living adjustment determined under Section 1(f)(3) of the Internal Revenue Code.

Child Tax Credit

The bill would, beginning in tax year 2024, create an income tax credit for qualifying children of taxpayers.

The credit per qualifying child, which would be refundable, would be:

- \$600 for taxpayers with Kansas adjusted gross income from \$0 to \$25,000;
- \$400 for taxpayers with Kansas adjusted gross income above \$25,000 but not over \$50,000;
- \$200 for taxpayers with Kansas adjusted gross income above \$50,000 but not over \$75,000;
- \$100 for taxpayers with Kansas adjusted gross income above \$75,000 but not over \$100,000;
- \$75 for taxpayers with Kansas adjusted gross income above \$100,000 but not over \$200,000;
- \$50 for taxpayers with Kansas adjusted gross income above \$200,000 but not over \$350,000; and

- \$25 for taxpayers with Kansas adjusted gross income over \$350,000.

Beginning in tax year 2025, the credit amounts and threshold income amounts would be adjusted by the cost-of-living adjustment determined under Section 1(f)(3) of the Internal Revenue Code.

A child would generally only be permitted to be claimed by one taxpayer per year. However, married taxpayers filing separate returns would be entitled to claim one-half of the credit amount that would have been claimed on a joint return.

In order to qualify for the credit, a child would have to be under 5 years old at the end of the tax year, reside at the same place as the taxpayer for more than one-half of the tax year, and be the child of the taxpayer or a descendant of such child, a sibling or stepsibling of the taxpayer, or a descendant of such sibling or stepsibling.

The Secretary of Revenue would be required to annually report on the adjusted amounts of the credit, the utilization of the credit, and information required to evaluate the effectiveness of the credit by January 31 of each year. The report would be delivered in writing to the House Committee on Taxation and the Senate Committee on Assessment and Taxation.

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 2025, and 1.63 percent for tax year 2026 and all tax years thereafter.

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 2025 and 1.61 percent for tax year 2026 and all years thereafter.

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

Food Sales Tax Changes

The bill would accelerate the elimination of the state sales and compensating use tax rate on food and food ingredients to July 1, 2024.

The bill would raise the percentage of sales tax revenue distributed to the State Highway Fund to 18.0 percent of sales and use tax receipts beginning July 1, 2024.

[*Note:* Under current law, the rate is scheduled to be reduced to 0.0 percent on January 1, 2025, and the proportion of sales and use tax receipts distributed to the State Highway Fund is scheduled to be increased to 18.0 percent beginning January 1, 2025.]

School Finance Levy Residential Exemption

The bill would increase, beginning in tax year 2024, the amount of residential property exempt from the statewide uniform 20-mill school finance levy to \$100,000 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 take effect in 2025.

The bill would also make technical changes.

Background

The bill was introduced by the Senate Committee on Assessment and Taxation at the request of Senator Tyson.

Senate Committee on Assessment and Taxation

In the Senate Committee hearing, **proponent** testimony was provided by Representative Averkamp, a representative of Americans for Tax Reform, and two private citizens. The proponents generally stated the bill would provide broad tax relief to Kansans, single-rate tax systems are easier for taxpayers to understand, and the bill is responsive to criticisms of previous tax plans.

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

Written-only opponent testimony was provided by representatives of Kansas Action for Children, Kansas National Education Association, Tax Simple Center, and Voter Rights Network of Wyandotte County, and a private citizen.

No other testimony was provided.

The Senate Committee amended the bill to provide for the full exemption of Social Security benefits and to remove a provision that would accelerate the final reduction of the state sales tax rate on food and food ingredients.

Senate Committee of the Whole

On March 14, 2024, the Senate Committee of the Whole amended the bill to:

- Add a child tax credit;
- Accelerate the elimination of state sales and compensating use tax on food and food ingredients and the associated disposition of revenue changes; and

- Increase the amount of the appraised value of residential property exempt from the statewide uniform 20-mill school finance levy to \$100,000.

Fiscal Information

According to the Department of Revenue, the bill, as amended, would have the following fiscal effect:

	(Dollars in Millions)				
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Income Tax Single Bracket, Std Ded, Pers Ex	\$ (244.9)	\$ (271.0)	\$ (349.6)	\$ (429.4)	\$ (511.0)
Social Security Exemption	(152.1)	(120.7)	(124.4)	(128.1)	(131.9)
Privilege Tax Rate Reductions	(1.3)	(4.2)	(7.4)	(7.4)	(7.4)
Child Tax Credit	(59.3)	(46.1)	(46.6)	(47.1)	(47.50)
Food Sales Tax to 0.0% Acceleration	(62.2)	-	-	-	-
<i>Subtotal State General Fund</i>	<i>(519.8)</i>	<i>(442.0)</i>	<i>(528.0)</i>	<i>(612.3)</i>	<i>(697.8)</i>
Food Sales Tax to 0.0% Acceleration	(12.9)	-	-	-	-
<i>Subtotal State Highway Fund</i>	<i>(12.9)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Res. Property Tax Exempt to \$100,000	(84.8)	(89.5)	(94.3)	(99.5)	(104.9)
<i>Subtotal All Other State Funds</i>	<i>(84.8)</i>	<i>(89.5)</i>	<i>(94.3)</i>	<i>(99.5)</i>	<i>(104.9)</i>
Total All Funds	<u>\$ (617.5)</u>	<u>\$ (531.5)</u>	<u>\$ (622.3)</u>	<u>\$ (711.8)</u>	<u>\$ (802.7)</u>

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

Taxation; income tax; rates; personal exemption; standard deduction; Social Security benefits; indexing; property tax; residential exemption; child tax credit; sales tax; food sales tax