

Senate Consideration of Income Tax: Proponent Testimony
Senate Committee on Assessment and Taxation
Itemization, Online Sales Tax, CARES loans forgiveness, Repatriation/GILTI
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Chairwoman Tyson and Members of the Committee,

We appreciate this opportunity to submit testimony as your committee considers possible changes to Kansas income tax code, which

- Allows Kansans to itemize on their Kansas return regardless of the deduction taken on their federal return,
- Exempts international income held overseas from Kansas taxation,
- Allows income tax liability for unemployment insurance fraud, and
- Ensures CARES forgivable loans are not taxable.

Here are three points for your consideration:

1. Legislative proposals should serve as a step towards tax competitiveness & improved Kansas economic standing.
2. Legislative proposals should provide tax relief to low-income Kansans
3. Without steps taking steps related to the 2017 federal tax reform at the state level, more Kansans will see a tax increase every year

Step towards tax competitiveness & improved Kansas economic standing.

Having so many tax increases and relatively high rates encourages companies and people to leave and discourage others from moving to Kansas. That's especially important because Kansas has been falling farther behind the nation in private-sector job growth and GDP growth. In fact, in 2019 alone, Kansas has been on the wrong side of growing alongside its peers.

2019

- Kiplinger, a business new periodical, named Kansas as the 10th least tax-friendly state in 2019¹
- Kiplinger named Kansas as the 3rd least tax-friendly state for retirees in 2019²
- Kansas 2019 private job growth was revised downward from an initial report of 13,000 jobs to 6,000.³

2020Q4

- As of December 30th, the number of Kansas businesses open decreased by 29.1% compared to January 2020⁴

¹ Kiplinger, *The 10 Least Tax-Friendly States in the U.S.*, <https://www.kiplinger.com/slideshow/taxes/T006-S001-10-least-tax-friendly-states-in-the-u-s-2019/index.html>

² Kiplinger, *10 Least Tax-Friendly States for Retirees, 2019*, <https://www.kiplinger.com/slideshow/retirement/T037-S001-10-least-tax-friendly-states-for-retirees-2019/index.html>

³ *Kansas 2019 Private Jobs Grows Slower Than Expected*, 3/16/2020, <https://kansaspolicy.org/2019-private-jobs-slow/>

⁴ Opportunity Insights, *Percent Change in Number of Small Businesses Open*, 12/30/2020, <https://tracktherecovery.org/>

- As of December 6th, total spending by consumers in Kansas decreased 4.9% compared to January 2020.⁵
- As of December 11th, total job postings decreased 3.5% compared to January 2020.⁶
- As of the November jobs report, Kansas has recovered 63.8% of the private jobs lost during the April COVID lockdown.⁷

2020 Overall

- Tax Foundation named Kansas as the 35th best Business Tax Climate in 2020⁸
- United Van Lines reports Kansas is the 6th most departed states in 2020.⁹
- MoneyWise reports Kansas is the 3rd worst state for taxing retirees.¹⁰

Income tax changes should provide tax relief to low-income Kansans

Governor Kelly three-times vetoed similar legislation to that would have prevented a tax increase on roughly 90,000 Kansans. To make matters worse, data from the Kansas Department of Revenue (KDOR) shows that lower-income Kansans had a higher effective tax rate increase than those with higher incomes. A breakdown of the Kansans affected by the windfall legislation show

- Married filers with Federal Adjusted Gross Income (income column) between \$60,000 and \$90,000 had a 15.3% tax hike though their income fell by 0.7%.
- Married taxpayers making above \$150,000 saw a 12.5% tax increase while their income fell by 0.1%.
- Single filers making between \$30,000 and \$60,000 had a 14.2% tax increase, yet their income fell by 0.2%.
- Single taxpayers making over \$150,000 had a 9% tax increase while their income fell by 4%.

⁵ Opportunity Insights, *Percent Change in All Consumer Spending*, 12/06/2020, <https://tracktherecovery.org/>

⁶ Opportunity Insights, *Percent Change in Job Postings*, 12/11/2020, <https://tracktherecovery.org/>

⁷ Kansas Department of Labor, *November Labor Report*, 12/18/2020,

[https://klic.dol.ks.gov/admin/gsipub/htmlarea/uploads/LR%20Nov2020%20Economist%20Overview%20Report\(2\).pdf](https://klic.dol.ks.gov/admin/gsipub/htmlarea/uploads/LR%20Nov2020%20Economist%20Overview%20Report(2).pdf)

⁸ Tax Foundation, *2021 State Business Tax Climate Index*, 10/21/2020, <https://taxfoundation.org/2021-state-business-tax-climate-index/>

⁹ United Van Lines, *2020 National Migration Study*, 1/4/2021,

<https://www.unitedvanlines.com/newsroom/movers-study-2020>

¹⁰ MoneyWise, *The 15 Worst States for Taxing Your Retirement*, 12/21/2020, <https://moneywise.com/a/the-15-worst-states-for-retirement-taxes>

Kansas Former Itemizers - Married Taxpayers						
Change in Average Kansas Adjusted Gross Income (KAGI) and Taxes Owed per Filer						
Income	2017 Average KAGI per Filer	2018 Average KAGI per Filer	2017 Average Tax per Filer	2018 Average Tax per Filer	Change in Average Income	Change in Average Tax Owed
Less Than \$0	\$ (291,025)	\$ (112,369)	\$ 52	\$ (2)	N/A	N/A
\$0 - \$15,000	\$ 9,272	\$ 7,559	\$ (143)	\$ (80)	N/A	N/A
\$15,001 - \$30,000	\$ 19,594	\$ 19,388	\$ (146)	\$ (78)	N/A	N/A
\$30,001 - \$60,000	\$ 39,335	\$ 38,168	\$ 572	\$ 725	-3.0%	26.7%
\$60,001 - \$90,000	\$ 70,000	\$ 69,502	\$ 1,861	\$ 2,146	-0.7%	15.3%
\$90,001 - \$120,000	\$ 99,949	\$ 99,296	\$ 3,217	\$ 3,634	-0.7%	13.0%
\$120,001 - \$150,000	\$ 128,677	\$ 128,308	\$ 4,428	\$ 4,985	-0.3%	12.6%
Over \$150,000	\$ 261,952	\$ 261,721	\$ 9,825	\$ 11,057	-0.1%	12.5%

Kansas Former Itemizers - Single Taxpayers						
Change in Average Kansas Adjusted Gross Income (KAGI) and Taxes Owed per Filer						
Income	2017 Average KAGI per Filer	2018 Average KAGI per Filer	2017 Average Tax per Filer	2018 Average Tax per Filer	Change in Average Income	Change in Average Tax Owed
Less Than \$0	\$ (42,347)	\$ (33,747)	\$ (9)	\$ (13)	N/A	N/A
\$0 - \$15,000	\$ 8,425	\$ 7,695	\$ (10)	\$ 13	N/A	N/A
\$15,001 - \$30,000	\$ 18,830	\$ 18,430	\$ 244	\$ 311	-2.1%	27.5%
\$30,001 - \$60,000	\$ 40,884	\$ 40,802	\$ 1,276	\$ 1,457	-0.2%	14.2%
\$60,001 - \$90,000	\$ 65,191	\$ 64,944	\$ 2,352	\$ 2,654	-0.4%	12.8%
\$90,001 - \$120,000	\$ 95,165	\$ 95,391	\$ 3,727	\$ 4,167	0.2%	11.8%
\$120,001 - \$150,000	\$ 125,448	\$ 126,390	\$ 5,081	\$ 5,821	0.8%	14.5%
Over \$150,000	\$ 267,087	\$ 256,449	\$ 11,366	\$ 12,389	-4.0%	9.0%

Source: Kansas Department of Revenue

Basing tax relief on the proposals previously vetoed by Gov. Kelly will provide tax relief to 90,000 Kansans, with more aid going towards the lower income.

More Kansans will see a tax increase every year

According to federal law, the federal standard deduction will increase with inflation every year. However, the federal itemized deductions shall remain constant. These federal item trends mean every year the federal standard deduction becomes more attractive. It thereby entices more Kansans to take the federal standard deduction and facing a state tax hike from it.

KDOR pulled Kansas taxpayers with federal itemized deductions that fall between the current federal deduction and the

Kansas Federal Taxpayers Potentially Seeing a Kansas Tax Increase				
Tax Year	Married Filers \$24,000 - \$24,400	Single or Married Separate Filers \$12,000 - \$12,200	Head of Household Filers \$18,000 - \$18,350	# of Tax Returns
Tax Year 2016	3,299	1,736	260	5,295
Tax Year 2017	3,352	1,654	293	5,299

Source: Kansas Department of Revenue

escalator slated for next year. The last two years of data suggest roughly 5,300 Kansas filers are at risk. That's 6% more than the 90,000 that fell into the tax increase trap the previous year. If these taxpayers switch and take the new federal standard deduction, then the state tax hike issue will

compound. Roughly 5,300 Kansas filers could fall into a tax increase trap every year unless this committee takes some action.

Kansas should be in line with the intent of Federal Tax Reform

Former Speaker of the House, Paul Ryan made this note about Federal Tax Reform, “The Tax Cut and Jobs Act will deliver real relief for people in the middle, people who are also striving to get there.”

Allowing Kansans to itemize on their Kansas return even if they took the federal standard deduction is a step in the right direction. It means Kansans have more choices to minimize their taxes owed as possible, providing more relief to their finances. Alternatively, if this change is not made Kansans will be shut out of the real relief Americans in other states are experiencing.

According to the tax foundation, Kansas has the 31st best corporate income tax environment in the country. Federal Tax Reform lowered corporate tax rates and provided a deduction for business income. This means that state corporate tax policy has become even more important for corporations to consider.

After the passage of Federal Tax Reform, Kansas has an opportunity to regain some comparative advantage by exempting repatriated and GILTI income from taxation. It sends a signal that Kansas doesn't penalize hard working entrepreneurs and wishes to support their growth here at home.

We urge the committee to consider these points as you plan your tax proposals in 2021.