

SB 37 or HB 2036 Deal Can Be Reached with \$60 Million and Tax Rate Adjustments

Tax revenue difference between Governor Kelly and Republican leaders is about \$90 million, which may be reached by \$60 million adjustments and \$30 million saving. There may be one step away to reach SB 37 or HB 2036 deal practically.

1. Taxes can be reduced for all taxpayers. Existing standard deductions \$4,000/6,000/8,000 and personal exemption \$2,250 are combined simply and raised to such as \$8,000/12,000/16,000. Each independent exemption may be raised from \$2,250 to \$2,350. Existing tax rate range 3.1%-5.7% (3 brackets) may be reduced and simplified to such as 2.9%-4.6%-5.5% (2 brackets: A/P2.#5) to meet tax revenue reduction by \$60 million/year (\$230 million - \$170 million). These numbers can be modified to meet related tax revenue goal.

2. Tax simplification can be used to reduce related costs for KS government, businesses and taxpayers. Existing complex tax system with multiple (3-8) tax brackets, 48 (3×2×8) withholding formulas, 22-page Withholding Tables and 8-page Tax Table can be matched and simplified by 2 brackets with simple 1 linear formula and 1 existing formula to reduce long-term cost \$30 million per year for KS government (B: Table 6).

3. Other tax revenues may be adjusted if needed (below).

SB 37 has 2 tax brackets at 5.2% and 5.57%, which are very close each other. Their difference over bottom tax rate is 7% (0.37/5.2) only comparing to existing 3.1%-5.7% with 84% (2.6/3.1) difference. Tax rate range differences are 84% vs. 7% with 12 time difference (84/7). Tax rate range difference over bottom tax rate is suggested from 100% to 700%, which depends on state tax revenue, fairness and budget balance (B).

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Why our simple social security tax cliff and tax problems are still not resolved after 5 years of discussions?

Governor Kelly vetoed HB 2036 and HB2284 in 2024. There were 3 times to veto because of 2 strange tax brackets at 5.15% and 5.55% and flat individual income tax rate at 5.25%. The first veto was about another flat tax rate at 5.15% in 2023. Republican lawmakers could not override.

SB 37 has 2 brackets at 5.2% and 5.57%, which was voted and past on May 1, 2024. Governor Kelly may veto SB 37 probably because of its tax rates, which are unfavorable to low incomes. Then our serious social security (SS) tax cliff problem has still not been resolved after 5-year discussions because of its political content of the flat and strange tax rates.

HB2036 includes 2 tax bracket individual income tax system at 5.15% and 5.55% rates (from existing 3.1%-5.25%-5.7%), all SS benefit exemption, standard deduction increase, personal exemption increase, resident property tax exempt to \$100,000, and others. The tax revenue can be reduced by \$124 million from all SS benefit exemption and \$234 million from individual income taxes with total tax revenue reduction by about \$462 million/year. When Kansas surplus \$4 billion covers the reductions, it can last 8.6 years only, which is still too expensive. Then debt may be produced after the 8.6 years. Our tax policy affects many people and shall be long-term balance. **When one simple linear formula is used for SS tax reduction, \$124 million may be changed to \$60 million/year (A). When another simple linear formula and one existing formula are used to simplify and replace existing individual income tax system, \$30 million/year cost may be saved for the Department of Revenue. Then \$462 million can be reduced to \$372 million/year. KS has about \$2.8 billion surplus, which can be used to cover for 6-8 years. For long term, other tax revenue or/and budget cut are needed to have financial balance.**

HB2284 includes individual income tax at 5.25% flat rate (from existing 3.1%-5.7%), all SS benefit exemption, standard deduction increase, personal exemption increase, resident property tax exempt to \$100,000, and others. The tax revenue will be reduced by \$306 million, \$120 million, \$19 million, \$15 million, \$89 million or \$8 million respectively with total tax revenue reduction by about \$558 million/year. When Kansas surplus \$4 billion covers the reduction, it can last 7.2 years only. Then debt may be produced dafter the 7.2 years. Our tax policy shall be long-term balance.

Kansas has had a social security (SS) tax cliff problem for many years. When adjusted gross income (AGI) is not over or over \$75,000, social security benefit is 100% or 0% subtraction respectively, which leads the simple tax cliff problem. For two AGIs from such as \$75,000 to \$75,001 **with \$1 differences**, the Kansas tax rate is 5.044% from $0.057-457.5 \times 1 / (75,000-3,000-2,250)$ (A) and **their SS tax difference is \$1,332** ($\$26,400 \times \text{tax rate}$) with SS benefit of \$2,200/month (or \$26,400/year), **which is totally unfair.**

Over the past 5 years, several proposals were presented to resolve this simple SS tax cliff problem. 2020 HB 2567 (B: by Rep. Gartner) proposed to reduce from 100% to 0% by 10% for each \$1,000 of AGI in excess of \$75,000 with 10 steps from \$75,000 to \$85,000 whether a taxpayer's filing status is single, head of household, married filing separate or married filing jointly. Tax revenue would be reduced by \$1.8 million. 2020 HB 2542 (C: by Rep. Mason) proposed to increase AGI from \$75,000 to \$100,000. Tax revenue would be reduced by \$43.3

million. **One suggestion (A) was to use one simple linear formula to reduce from 100% to 0% gradually** between such as \$75,000-\$85,000 or \$70,000-\$80,000 to resolve the SS tax cliff problem simply with little to no tax revenue change. Different tax statuses (S) are also discussed.

2022 HB 2727 (D: by Rep. Gartner) modification proposed to reduce from 100% to 0% gradually with one simple linear formula $1-(AGI-75,000)/10,000$ from \$75,000 to \$85,000, which was combined into 2022 HB 2597 (E: Page 48). 2023 HB 2109 (F: by Rep. Sawyer) proposed to reduce from 100% to 0% deduction gradually with one simple linear formula $1-(AGI-75,000)/25,000$ from \$75,000 to \$100,000. Tax revenue would be reduced by \$20.5 million. The bill was combined into 2023 SB 169 (G: by Senator Tyson). The final bill combined several favorable and unfavorable bills together. It is a major reason that the simple SS tax cliff problem is still not resolved after the 4 year discussions.

“Favorable” bills can be used to resolve our problems and are good to our society. “Unfavorable” bills have strong political contents to cause problems (short and/or long term). **2022 HB 2727 and 2023 HB 2109 were favorable bills to resolve our SS tax cliff problem.** 2023 SB 169 (G), was about individual income tax with 5.25% or 5.15% (flat tax rate), which would cause several serious problems such as: (1) tax revenue would be reduced significantly by such as \$572.5 million per year without balance. We resolve one problem and shall not create another problem; (2) for high incomes like \$1 million (taxable income), income tax would be reduced by \$4,042.50 or \$5,042.50 less than the existing tax rate system (5.65425%); and (3) Kansas has 3 (up to 8) tax brackets, 48 (3×2×8) withholding formulas, 22-page Withholding Tables, and 8-page Tax Table, which are complex and need to be simplified. 2022 HB 2727 should not be combined into 2022 HB 2597. 2023 HB 2109 should not be combined into 2023 SB 169.

There are two political trends for income tax systems. One is to increase tax revenue with complex income tax systems. Another one is to reduce tax revenue with a flat tax rate, which will not resolve related problems of tax revenue, basic living cost, income tax, fairness, and others. When 2 tax rates are set such as 3.1% for bottom tax rate and 4.785% for taxable income $\$50,000 \times S$ (S is 1 for Single Filers or 2 for Joint Filers), a straight linear line between them is the most simple, fair, and effective (H). **We need tax simplification to save related costs and time for the Department of Revenue, lawmakers, companies, and people.** Budget balance needs to be considered at first. Proper and simple tax system needs to be used.

One simple linear formula in 2022 HB 2727, 2023 HB 2109 or modifications could be used to resolve our social security (SS) tax cliff problem simply with little or no tax revenue change, which already had wide supports from Kansas Republic and Democratic lawmakers. Governor Kelly presented a similar proposal (I) as 2023 HB 2109. One similar linear formula can also be used to resolve our corporate tax, Homestead Property Tax Refund, and other tax problems technically with slight or no tax revenue change (H and J). One simple linear formula and one existing formula, which can simplify and replace existing 3 (up to 8) tax brackets, 48 (3×2×8) withholding formulas, and 22-page Withholding Tables, **can be used to resolve our individual**

income tax system problems technically with more than 96% (1-2/48) simplification, neutral tax revenue (K: \$3 million), and 15 benefits to save millions of dollars (H: Table 6). Existing income tax rate ranges at 3.1%-4.785%-5.7% (two tax brackets) may be reformed to 2.9%-4.585%-5.5% or 2.7%-4.385%-5.3% (2 brackets) to reduce taxes for all taxpayers with minor or without standard deduction and personal exemption change. When standard deductions are increased and personal exemption is increased, tax rates may be reformed to such as 4.5%-5%-5.55% (2 brackets), which depended on related tax revenue change and balance.

Political contents shall be removed as possible from these tax solutions with one simple linear formula. To resolve our social security tax cliff problem, which shall be done at first, is much more important than to push political flat tax. Favorable and unfavorable bills shall not be combined together. **Then these problems can be resolved simply, technically, and effectively, which are good for our society.**

References:

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