Brief*

Senate Sub. for HB 2036 would make various changes to income, sales, and property tax law. Specifically, the bill would:

- Reduce the top marginal individual income tax rate;
- Exempt Social Security income from the individual income tax;
- Increase the standard deduction amounts;
- Increase the child and dependent care tax credit;
- Reduce privilege tax rates;
- Abolish the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund;
- Increase the amount of the appraised value of residential property exempt from the statewide uniform school finance levy, and reduce the mill levy; and
- Accelerate the elimination of the state sales and compensating use tax rate on food and food ingredients and the associated disposition of revenue changes.

The bill would be in effect upon publication in the *Kansas Register.*

**Individual Income Tax Brackets and Rates**

The bill would reduce the tax rate for taxable income over $60,000 for married couples filing joint returns and over $30,000 for all other filers from 5.7 percent to 5.5 percent beginning in tax year 2024.

**Social Security Benefit Exemption**

Beginning in tax year 2024, all Social Security benefits would be exempt from Kansas income tax.

*Conference committee report briefs are prepared by the Legislative Research Department and do not express legislative intent. No summary is prepared when the report is an agreement to disagree. Conference committee report briefs may be accessed on the Internet at [http://www.kslegislature.org/klrd](http://www.kslegislature.org/klrd)*
**Standard Deduction Increases**

The bill would increase the standard deduction amounts from $3,500 to $5,000 for single filing status, $8,000 to $10,000 for married filing status, and $6,000 to $7,500 for head of household filing status beginning in tax year 2024.

**Child and Dependent Care Tax Credit Increase**

The bill would increase, beginning in tax year 2024, the child and dependent care tax credit amount from 25 percent of the federal amount to 100 percent of the federal amount.

**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 abolish the Local Ad Valorem Tax Reduction Fund and County and City Revenue Sharing Fund and eliminate statutory transfers from the State General Fund (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 $100,000 of appraised value.

The bill would discontinue the formula to increase the amount of the exemption based upon the statewide average increase in residential valuation over the preceding ten years.

The bill would reduce the uniform school finance levy from 20 mills to 19.5 mills beginning in tax year 2024.

The bill would require a demand transfer be made from the SGF to the School Finance Fund in the amount of any reduction to the School Finance Fund attributable to the residential exemption in excess of $42,049 and the mill levy below 20 mills, as certified by the Director of the Budget.

**Food Sales Tax Changes**

The bill would accelerate the elimination of the state sales and compensating use tax rate on food and food ingredients from January 1, 2025, to July 1, 2024.
The bill would accelerate the raise in 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, rather than beginning on January 1, 2025.

**Conference Committee Action**

The Conference Committee agreed to remove the contents of Senate Sub. for HB 2036 and to insert the provisions described above.

**Background**

The Conference Committee removed the contents of Senate Sub. for HB 2036 and inserted a comprehensive tax plan. Senate Sub. for HB 2036 would have created a sales tax exemption for certain disabled veterans. Comprehensive tax plans considering similar provisions had previously been adopted by the House of Representatives in House Sub. for SB 300 and by the Senate in SB 539. Background information for those bills is provided below.

**House Sub. for SB 300 (House Tax Plan)**

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 provide 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.

*House Committee of the Whole*

The House Committee of the Whole amended the bill to:

- Exempt all Social Security benefits from the individual income tax;
- Increase the amount of the appraised value of residential property exempt from the statewide uniform 20-mill school finance levy to $100,000 and eliminate the provision providing for future increases to the exempt amount;
- Require a demand transfer to the School Finance Fund; and
- Accelerate the elimination of state sales and compensating use tax on food and food ingredients and the associated disposition of revenue changes.

*SB 539 (Senate Tax Plan)*

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 Awerkamp, 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 tax provisions of the Conference Committee Report are estimated to have the following fiscal effects:

<table>
<thead>
<tr>
<th>(Dollars in Millions)</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>FY 2028</th>
<th>FY 2029</th>
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</thead>
<tbody>
<tr>
<td>Top Tax Rate to 5.5% and Std Ded Inc</td>
<td>(230.1)</td>
<td>(178.9)</td>
<td>(180.7)</td>
<td>(182.5)</td>
<td>(184.3)</td>
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<tr>
<td>Social Security Exemption</td>
<td>(152.1)</td>
<td>(120.7)</td>
<td>(124.4)</td>
<td>(128.1)</td>
<td>(131.9)</td>
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<tr>
<td>Child and Dependent Care Credit Increase</td>
<td>(18.0)</td>
<td>(18.0)</td>
<td>(18.0)</td>
<td>(18.0)</td>
<td>(18.0)</td>
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<tr>
<td>Privilege Tax Reductions</td>
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<td>(7.4)</td>
<td>(7.4)</td>
<td>(7.4)</td>
<td>(7.4)</td>
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<tr>
<td>Food Sales Tax to 0.0% Acceleration</td>
<td>(63.5)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>School Dist. Fin. Fund Transfer</td>
<td>(110.7)</td>
<td>(112.5)</td>
<td>(114.4)</td>
<td>(116.3)</td>
<td>(118.3)</td>
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<tr>
<td>Subtotal State General Fund</td>
<td>$ (577.0)</td>
<td>$ (437.5)</td>
<td>$ (444.9)</td>
<td>$ (452.3)</td>
<td>$ (459.9)</td>
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<tr>
<td>Food Sales Tax to 0.0% Acceleration</td>
<td>(13.1)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Subtotal State Highway Fund</td>
<td>$ (13.1)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
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<tr>
<td>Res. Property Tax Exempt. and Mill Levy</td>
<td>(105.5)</td>
<td>(103.0)</td>
<td>(100.3)</td>
<td>(97.5)</td>
<td>(94.4)</td>
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<tr>
<td>State General Fund Transfer</td>
<td>110.7</td>
<td>112.5</td>
<td>114.4</td>
<td>116.3</td>
<td>118.3</td>
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<td>Subtotal State School Dist. Fin. Fund</td>
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<td>9.5</td>
<td>14.1</td>
<td>18.8</td>
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<tr>
<td>Total All Funds</td>
<td>$ (584.9)</td>
<td>$ (428.0)</td>
<td>$ (430.8)</td>
<td>$ (433.5)</td>
<td>$ (436.0)</td>
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</table>

Additionally, the Division of the Budget indicates 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, child and dependent care tax credit increase, privilege tax rate changes, and school finance levy residential exemption increases are partially reflected in The FY 2025 Governor’s Budget Report.