

Kansas Tax Problems and Simple Solution to Save \$90 Million Yearly

Kansas has several income tax problems such as social security tax cliff, income tax complexity, property tax credit cliff, earned income tax credit, state-federal tax cycle, corporate tax, senior tax return, and other tax problems (A).

Social security (SS) tax cliff is a serious problem. When adjusted gross income (AGI) is from not over to over \$75,000, social security benefit deduction is 100% or 0% with its cliff problem. From AGI \$75,000 to \$75,001 with \$1 difference, SS tax difference is \$1,332 because of the cliff problem (B), which is totally unfair. One simple formula for gradual changes from 100% to 0% with such as $1 - (AGI - 70,000) \div 10,000$ can be used to resolved the cliff problem. Tax revenue change can be neutral.

Kansas has 3 (up to 8) tax brackets, 48 ($2 \times 3 \times 8$) withholding formulas, 22-page Withholding Tables, and 8-page Tax Table, which are complex (C). There are two income tax systems. One is for employers to calculate withholding taxes (D). Another is for people to do tax returns (E). If businesses do not need to use existing complex Withholding Tables and 48 formulas, then businesses and Department of Revenue can reduce related time and costs (million dollars).

State tax simplification has been researched by Robert Kao and John Lee. Complex Kansas tax system can be matched and simplified. The 3 (up to 8) tax brackets can be reduced to 2 (3.1%-4.785%-5.7%) and the 22-page Withholding Tables and 48 formulas can be eliminated and replaced by simple one linear formula and one existing formula by 96% ($1 - 2/48$) simplification with comparable results, which is explained by their research paper (F). Tax revenue change is almost neutral.

When 2 tax rates are set such as 3.1% for bottom tax rate and 4.785% for taxable income $\$50,000 \times S$, a linear line between them to have one simple formula is the most simple, fair, and effective (F). Status (S) is 1 or 2. Comparing existing 3 brackets, 22-page Withholding Tables, and 48 ($2 \times 3 \times 8$) formulas and simplified 2 brackets/formulas, businesses may save \$35.88 million from $1 \times 26 \times 1.38$ million if businesses can save \$1 on each biweekly period per employee. Kansas has 1.38 million employees (G). The \$1 covers about 8 areas (F). There are about 15 direct and non-direct benefits. Their saving values for KS government, businesses, and people may be \$90 million/year (F: Table 6), which may need to be evaluated by KS Department of Revenue.

KS corporate income tax has 2 tax brackets at 4% and 7%. Tax rate speeds increased rapidly when taxable incomes are over \$50,000. These tax rates are not competitive comparing with other states around Kansas. Both MO and OK have single tax rate 4%. AR has 1%-6.5% (6 tax brackets). A flat tax rate is too simple, which can not cover different taxable incomes and small and large companies reasonably. Multiple tax brackets are too complex. A nice business tax plan is to have a relatively low bottom tax rate, which can encourage more people to start businesses. Small businesses hire many employees to meet social and economical needs. Then mid and large businesses are more stable and pay relatively higher tax rates. Two brackets and formulas for corporate tax calculations are suggested with two gradual tax rate ranges such as 3%-4.8%-6.5% to be competitive and encourage for more small businesses.

Another tax problem is existing Homestead Property Tax Refund with 22 brackets and cliff rates from 100% to 0%. One simple formula is suggested to resolve the 22 cliffs (A). Partial federal earned income tax credit is deducted in KS tax system. When federal and state tax deductions are claimed each other, a cycle problem is introduced. They may be deducted each other with many deduction cycles without end. State tax deduction is suggested to be independent to avoid the cycle problem.

Existing seniors' tax returns are complex, which cause some problems for seniors. Seniors' tax returns are suggested to be simplified (I). There are other tax problems (A).

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 one or few flat tax rates, which will not resolve related problems of tax revenue, basic living cost, income tax, cliff, fairness, and others. We do need tax simplification to save related costs and time for Department of Revenue, lawmakers, companies, and people technically. Budget balance needs to be considered at first. Proper and simple tax system can be used to resolve these tax problems with one simple linear formula as a simple and effective solution.

If you have questions and comments, please contact John Lee at johnlee@taxsimplecenter.net.

- A. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wtaxproblem_solutionks31.pdf
- B. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/article_-_solution_for_ss_cliff_and_tax_problems4.pdf
- C. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wks_bill_draft44.pdf
- D. www.ksrevenue.gov/pdf/kw100.pdf#search=Kansas%20withholding%20Tax%20Guide
- E. <https://ksrevenue.gov/forms-perstax.html>
- F. www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf
- G. www.bls.gov/oes/current/oes_ks.htm#00-0000
- I. https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wsenors_fs_paper2.pdf