

Kansas Income Tax System: Problems and Solutions

1. Two Extreme Tax Systems: (A)

(1) Flat tax rates:

- Too simple, rough and unfair to cover different taxable incomes - Tax revenue and cliff problems
- Less tax revenue and less processing time and costs - Easy and lazy method

(2) Multiple tax brackets:

- Too complex to cover different taxable incomes fairly - More tax brackets
- Relative more tax revenue and more processing time and costs - More tables and formulas

(A): www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf (Research Paper)

2. Kansas Tax System Problems: (B)

Kansas has 3 (up to 8) tax brackets (**Problem #1: various bracket numbers**), 48 (3×2×8) withholding formulas (**Problem #2: too many formulas**), 22-page Withholding Tables (**Problem #3: too many pages and too complex**), 8-page Tax Table, and other tax problems.

(B) https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wks_bill_draft42.pdf

3. SB 169, SB 61 and HB 2061 (Potential Problems):

(1) SB 169, HB 2061 and SB 61 can reduce tax revenue by \$xxx million. Where can we find extra incomes or do we plan to cut budget? We resolve one problem and should not create another problem.

(2) For high incomes such as \$1 million (taxable income), income tax can be reduced by (\$7,292.50) less than existing tax system. There is tax rate jump from 0% to 5.x%.

(3) When \$6,150×S (S=1 or 2) are deducted for all taxpayers, it is much easy to (a) add into KS standard deductions or tax credits and (b) calculate taxes with smooth tax rate changes without the tax rate jump 0%/5%.

(4) **Two brackets and two statuses:** 1-st bracket: Not over \$6,150/\$12,300 Tax rate is 0%
2-nd bracket: Over \$6,150/\$12,300 Tax rate is 5.x%

www.kslegislature.org/li/b2023_24/measures/documents/supp_note_sb169_02_0000.pdf

4. Solution with Two Brackets / One Linear Formula and One Existing Formula:

(1) The tax problems in #2 can be resolved. (2) The tax problems in #3 can be resolved.

(3) Two brackets and 2 formulas are used with 3%-4.785%-5.7% for not over and over \$50,000×S (S is 1 for Single Filler or 2 for Joint Fillers). SB169/61 and HB 2061 have also two brackets with 4 (2×2) taxable income (TI) ranges and 32 (2×2×8) withholding TI ranges and 2 tax rates (0% and 5.x%).

(4) **Tax revenue: Neutral or minor change** (We can not create another problem)

5. Tax Calculation System Comparisons

Tax Calculation Systems	Tax Brackets	Withholding Formulas	Withholding Tables	Tax Table	Tax Revenue Change	Savings or Values	For Tax Reform
Existing 3.1-5.7%	3 (to 8)	48	22 pages	8 pages	No change	No change	Complex
SB 169: 0%/5.x%	2	32	22 pages	Option	(\$xxx million)	\$x million	Simple
3%-4.785%-5.7%	2	2	0	Option	Neutral	\$xx million	Simple

6. Other Examples:

(1) Social security tax cliff problem with flat rates: **Solution:** Smooth linear formula from 100% to 0

(2) Property tax credit with 23 flat rates with 22 cliffs: **Solution:** Smooth linear formula 100% - 0

For more information, contact us at johnlee@taxsimplecenter.net or 913-710-0957.

Tax Problem and Solution with One Slope Formula for Kansas

Summary: One simple linear formula can be used to resolve KS social security (SS) tax cliff, income tax, homestead property tax refund, and corporate tax problems. Existing 3 (up to 8) income tax brackets, 48 withholding formulas (2×3×8), 8-page Tax Table, and 22-page Withholding Tables can be matched and simplified with 15 benefits for KS to save \$90 million (Table 6*).

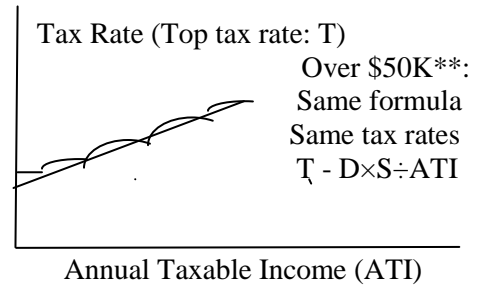
* Research paper: www.scitcentral.com/documents/be5648da4795008d9893b752b9226c8f.pdf (Table 6)
<https://taxsimplecenter.net/statetaxsimplification.html>

1. Multi-Bracket Income Tax Systems and Simplification

KS Tax Calculation System:

3 tax brackets at 3.1%, 5.25% and 5.7% (up to 8 brackets)
 48 withholding formulas (2×3×8)
 22-page Withholding Tables and 8-page Tax Table
 (At \$50K, tax rate is 4.785%) 3.1% is reduced to 3%
(Neutral tax revenue)

Solution: One simple linear formula and one existing formula



Bill Draft for Personal Income Tax Simplification:

For all individuals regardless of filing status, the tax shall be computed with the following formula:

If the annual taxable income (ATI) is:	The tax rate and tax are:
Not over \$50,000×S.....	$(ATI \div S \div C + 0.03) \times TI$
Over \$50,000×S.....	$(0.057 - (D \times S \div ATI)) \times TI$

Where: ATI = annual taxable income = TI × F. C = 2,967,359 from 50,000 to divide the 1st tax rate range difference (0.04785-0.031) or 2,801,120 from 50,000 ÷ (0.04785-0.03) for neutral tax revenue. D = 457.5 from 50,000 to multiply the 2nd tax rate range difference (0.057-0.04785), which is the same number from existing formula for over \$50,000×S. F = the number of filing periods (52, 26, 24, 12, 4, 2, 1 or 364 for weekly, bi-weekly, semi-monthly, monthly, quarterly, semi-annual, annual or daily filing periods). S = status number (2 for married individuals filing joint returns; or 1 for all other individuals). Tax rate ranges = 3% to 4.785% for ATI ÷ S not over \$50,000 and 4.785% to 5.7% for over \$50,000. TI = taxable income.

Examples: Tax rate and tax are:

1. ATI=\$38,500: $(ATI \div S \div C + 0.03) \times TI = (38,500 \div 1 \div 2,801,120 + 0.03) \times 38,500 = 0.0437445 \times 38,500 = 1,684.16$
2. ATI is \$120,000: $(0.057 - D \times S \div ATI) \times TI = (0.057 - 457.5 \times 2 \div 120,000) \times 120,000 = 0.049375 \times 120,000 = 5,925.00$
3. Biweekly TI is \$1,481 (S=1): $(1,481 \times 26 \div 1 \div 2,801,120 + 0.03) \times 1,481 = 0.0437466 \times 1,481 = 64.79$
4. Monthly TI is \$10,000 (S=2): $(0.057 - 457.5 \times 2 \div (10,000 \times 12)) \times 10,000 = 0.049375 \times 10,000 = 493.75$

$$\text{Withholding/Income Tax} = (\text{Incomes} \pm \text{Adjustments} - (\text{Deductions} + \text{Exemptions}) \div F) \times \text{Tax rate} - \text{Tax credits} \div F$$

Option: Reduce existing 3.1%-5.7% to 2.9%-4.6%-5.5% for all people:

For all individuals regardless of filing status, the tax shall be computed with the following formula:

If the annual taxable income (ATI) is:	The tax rate and tax are:
Not over \$50,000×S.....	$(ATI \div S \div C + 0.029) \times TI$
Over \$50,000×S.....	$(0.055 - (D \times S \div ATI)) \times TI$

C = 5,882,353 from 50,000 ÷ (0.04785-0.03). D = 900 from 50,000×(0.055-0.046)

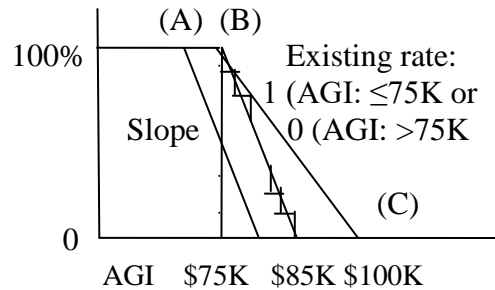
2. Flat Rates (KS Social Security Benefit Tax Cliff Problem and Solution)

Kansas has social security benefit (SSB) tax cliff problem from 1 (100%) to 0 immediately (into Federal Adjusted Gross Income (AGI) subtraction) for AGI not over or over \$75,000. Tax status differences are needed.

When AGIs are changed from such as \$74,999 to \$75,991, their SS tax difference may be \$1,000, which is unfair. Linear formula is suggested from 100% to 0 gradually.

Solution: One simple linear formula

(B) $(1-(AGI-75,000)\div 25,000) = (100,000-AGI)\div 10,000$



One simple linear formula and one existing formula from 100% for adjustable gross income (AGI) at or less than \$75,000 to 0% at or more than \$100,000 with one formula. The deduction is: $(1-(AGI-75,000)\div 25,000)\times SSB$.

www.kslegislature.org/li/b2021_22/committees/ctte_h_tax_1/documents/testimony/20220314_02.pdf

(C): One linear formula with tax status number (S is 1 or 2) may be used to cover general retirement incomes, have tax return simplification, and reduce seniors' tax return numbers and government costs.

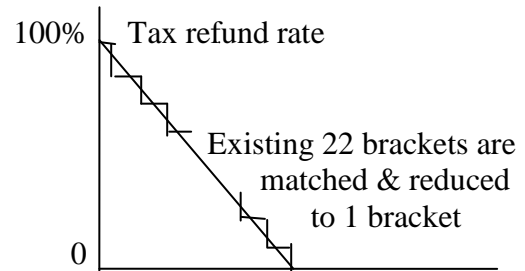
https://taxsimplecenter.net/uploads/8/3/3/9/83395216/wstate_seniortaxreturn8.pdf (Research Paper)

3. Property Tax Credit/Refund Rate

Form K-40H has 23 brackets for Homestead Property Tax Refund.

K-40H: For Line 10, % rates are: 100%, 96%, 92%, ... (17 brackets)..., 10%, 5% or 0% (>\$35,700) in 2019 or 0% (>\$35,001) in 2018

One slope (linear) method is used to match the tax refund rates between 100% and 0 gradually **with one bracket**. Then the 22 brackets are reduced to 1 (**95% reduction**).



Homestead property tax refund rate simplification

Line 10	0 - \$36,000	Over \$36,000
Tax refund rate	$1-(L10\div 36,000)$	0

4. KS Corporation Tax Modification

Existing KS corporate tax rates are 4% at 0-\$50,000 and 7% for above \$50,000 non-smoothly. MO has 4% from prior 6.25%. OK has 4% from prior 6%. The tax rate reduction also causes tax revenue reduction. AR has corporate tax rate range 1%-6.5% (6 tax brackets).

www.kslegislature.org/li/b2023_24/asures/documents/sb169_02_0000.pdf

SB 169 is approved by KS House and Senate in April, 2023, which reduces from 4%-7% to (1) 3%-4.75%-6.5% or (2) 2.75%-4.75%-6.5% for not over and over \$100,000. They can be matched between non-smooth 3%-4.75% and smooth 2.75%-4.75%. 3% can be reduced to 2.75% with neutral tax revenue change with one linear formula and one existing formula. 2.75% is lower than 4% of MO and OK. A lower bottom tax rate can encourage more small businesses for economical development and employment. A flat tax rate is too simple, unfair, and unreasonable for small and large businesses.

LG tax rate system for KS corporations with smooth tax rate change

Annual Taxable Income (ATI)	ATI Range	Taxable Income (TI)	LG Tax Rate and Tax Formula	Tax Rate Check	Tax Rate	Tax TI×Tax Rate
	0 - 100,000		$(TI\times F+C + 0.0275)\times TI$	0.0275-0.0475		
	Over 100,000		$(0.065 - D\div TI\div F)\times TI$	0.0485-0.06		

$(F=\text{filing period \#, } C=100,000+(0.0475-0.0275)=5,000,000 \text{ and } D=100,000\times(0.06-0.0475)=1,750)$

For more information, contact us at johnlee@taxsimplecenter.net or 913-710-0957.