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To: House Taxation Committee
From: Mark Tomb, VP of Governmental Affairs
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Re: Testimony in Support of Itemized Deductions- HB 2421 and SB 22

Chairman Smith and members of the House Taxation Committee, thank you for the opportunity to provide testimony today. I will focus my remarks on the decoupling of itemized deductions that are part of both HB 2421 and SB 22. This would provide Kansas income tax filers with the long overdue ability to take state level itemized deductions regardless of whether they take the standard deduction or itemize on their federal returns.

KAR represents over 10,000 members involved in residential, commercial and agricultural real estate and has advocated on behalf of the state's property owners for 100 years. REALTORS® serve an important role in the state's economy and are dedicated to working with our elected officials to create better communities by supporting economic development, a high quality of life and providing affordable housing opportunities while protecting the rights of private property owners.

REALTORS® believe that the private ownership of real property is the foundation of our nation's free enterprise system. Homeownership is the cornerstone of the American Dream and deserves a preferred place in our system of values as it contributes to community responsibility; business, civic, and economic stability; family security; and quality of life. We believe every family deserves a decent home and a suitable living environment and our members are committed to helping every single citizen, who so desires, to realize the American Dream of homeownership. It is because of these beliefs that REALTORS® strongly support policies that prioritize private property ownership. As such, private property ownership, specifically homeownership, deserves a preferred place in our Kansas tax policy.

Federal Tax Reform of 2017 – Unintended Kansas Income Tax Increase on Middle Class Homeowners

On December 22, 2017, President Trump Signed the "Tax Cuts and Jobs Act". The provision of this law affecting Kansas homeowners and their ability to deduct mortgage interest and property taxes from their Kansas income tax, was the federal provision doubling the standard deduction. This fundamentally reduced the value of the mortgage interest and property tax deductions as tax incentives for homeownership.

Summary of the Current Law

Current Kansas law provides that, "[i]f federal taxable income of an individual is determined by itemizing deductions from such individual's federal adjusted gross income, such individual may elect to

deduct the Kansas itemized deduction in lieu of the Kansas standard deduction.”¹ In other words, Kansas income tax filers may only itemize deductions on state income tax filings if they itemize on their federal return. Due to the doubling of the federal standard deduction, very few Kansas taxpayers currently benefit from the itemized deductions, meaning there is no substantial tax differential between renting and owning for more than 90% of taxpayers.

To avoid an ongoing state income tax increase on Kansans that historically took the Kansas itemized deductions, the Kansas Legislature needs to allow individuals the option of itemizing deductions on Kansas tax filings regardless of whether or not an individual's federal return allows itemized deductions.

Kansas Voters Support Proposals to Protect Itemized Deductions

In addition to the strong legislative history that supports itemized deductions, KAR is led to believe that Kansans strongly support the deductions. Our belief of this public support is driven by a recent poll of registered voters in Kansas conducted by American Strategies, Inc. for KAR.² This poll showed that most Kansans believe that the state home mortgage interest deduction is a factor in the decision to buy a home and that weakening the deduction would have an adverse effect on the state housing market and overall Kansas economy. Furthermore, voters strongly support the mortgage interest deduction and agree that the “tax windfall” from federal tax reform should be returned to taxpayers.

This support was strong across party lines with **73% of Democrats** and **74% of Republicans** supporting the proposal to change Kansas tax law to allow Kansas families the ability to continue to take the state itemized deductions regardless of whether they take the federal standard deduction.

Conclusion

Legislative history and public sentiment toward these deductions provide strong guidance for Kansas lawmakers in responding legislation related to federal tax reform. Economic growth depends on a stable investment environment with a consistent tax code. Since 2012, the Kansas Legislature has passed a series of alterations to Kansas tax policy followed by a repeal of many of those measures in 2017. Throughout the turmoil, Kansas lawmakers have preserved the ability of Kansans to claim the mortgage interest and property tax deductions on state income tax returns.

The mortgage interest deduction and property tax deduction are favorable tax policies for Kansas homeowners. The State of Kansas should be encouraging homeownership, rather than making homeownership harder. These deductions not only make homeownership more affordable, they recognize the critical importance of the housing industry to the Kansas economy.

Thank you for the opportunity to appear and provide testimony supporting this legislation. KAR requests that the House Taxation Committee act on this bill favorably.

¹ Kan. Stat. Ann. §79-32,120(a)(1)(Supp. 2018).

² American Strategies designed and administered this telephone survey conducted by professional interviewers. The survey reached 600 adults, age 18 or older, who indicated they were registered to vote in Kansas and voted in the November 2018 midterm election. The data were weighted to ensure an accurate reflection of the population. The survey was conducted from December 6 to 8, 2018. The overall margin of error is +/- 4.0%.