



Kansas Tax Bill Would Cost \$600 Million a Year While Hiking Taxes on Low-Income Families

Kansas legislators are set to vote on a tax bill recently approved by a joint House-Senate conference committee. An ITEP analysis of the agreed-upon tax bill shows that it would reduce state tax collections by close to \$600 million a year, while actually increasing taxes on many low- and middle-income Kansans.

The conference committee plan exempts 'pass-through' business income from the personal income tax; cuts the top income tax rate; repeals itemized deductions for medical expenses, property taxes, investment interest, casualty and theft, unreimbursed employee expenses, tax preparation fees, and "other miscellaneous deductions." It also eliminates a tax credit for low-income renters and requires low-income filers to claim either the food sales tax rebate or the earned income tax credit.

The Costly Price Tag

The components of the plan that will reduce revenues the most are phased in over several years, obscuring their ultimate price tag. To illustrate the cost, however, ITEP estimates that if the plan had been fully implemented in 2011, the cost for that year alone would have been \$582 million. The two most expensive components of the legislation are a reduction in the top tax rate and elimination of the tax on pass-through business income. The business tax cut is also problematic because it creates troubling incentives for tax avoidance.¹

This pair of tax cuts is ill advised not only because of their cost to the state, but a sizable chunk of these tax cuts will instead go directly to the federal government in the form of higher taxes for federal itemizers, because high income filers can deduct the cost of their state taxes from their federal tax bill. Fully 18 percent of the business income tax cut would disappear from Kansas in this way - about \$53 million. And, as a result of the reduction in the income tax rate, Kansans who itemize will see their federal income tax liability increase by \$68 million.

Poorest Hit Hardest

The conference committee bill would provide substantial tax cuts for the best off Kansans while actually increasing taxes on many low-income taxpayers because of cuts in low-income credits. ITEP estimates that the poorest 40 percent of the Kansas income distribution will see their taxes go up, on average, as a result of this tax plan. For example, Kansans in the bottom 20 percent of the income distribution, those with incomes less than \$20,000, will see their taxes increase by \$86, on average. By contrast, those in the top 1 percent will receive an average state tax cut of \$19,771, even as that group already pays a smaller portion of its income on state and local taxes than do lower and middle-income Kansans.²

Estimated Impact of Kansas Conference Committee Agreement

Kansas Residents, 2011 Income Levels

2011 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%	\$ State Impact (thousands)
Income Range	Less Than \$20,000	\$20,000 – \$35,000	\$35,000 – \$57,000	\$57,000 – \$90,000	\$90,000 – \$165,000	\$165,000 – \$400,000	\$400,000 – Or More	
Average Income in Group	\$11,000	\$28,000	\$46,000	\$73,000	\$116,000	\$237,000	\$1,054,000	
Tax Change as % of Income	+0.8%	+0.0%	-0.1%	-0.3%	-0.6%	-1.2%	-1.9%	
Average Tax Change	86	1	-49	-254	-688	-2,779	-19,771	\$ -582,000

SOURCE: Institute on Taxation and Economic Policy Microsimulation Tax Model, May 2012

¹ Proposed Kansas Tax Break for "Pass-Through" Profits Is Poorly Targeted and Will Not Create Jobs, Center on Budget and Policy Priorities, March 26, 2012.

² Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, Institute on Taxation and Economic Policy, November 2009.