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Informing the debate over tax policy nationwide
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Tax Plans Put Kansas on Road Away from Fair & Adequate Tax Reform

Since Kansas Governor Sam Brownback began the year by proposing a plan for reducing the state's personal income tax, lawmakers have debated a number of approaches to changing the state's tax laws. Yet, the Governor's own plan was deeply flawed. ITEP's earlier analysis, *Kansas Governor Tax Proposal: Wealthy Kansans Pay Less, Poor and Middle-Income Kansans Pay More,* found that the bottom 80 percent of the state's income distribution would collectively see a tax hike under the Brownback plan, while the best off 20 percent of Kansans would see substantial tax cuts.

Both the House and Senate have recently passed bills, loosely modeled on the Governor's plan, that would reduce income tax rates, but their plans are different in very important ways. This ITEP report assesses the impact of the House and Senate plans on state revenues and tax fairness, and finds that each of these plans would provide large tax cuts to the best off Kansans while offering little or nothing to low-income and many middle-income Kansans.

The House plan would gradually repeal the income tax and reduce the Earned Income Tax Credit (EITC). The Senate plan would reduce the top tax rate to 4.9 percent and maintain the EITC.

Regrettably, both proposals include a provision that would completely exempt "pass -through" business income. This provision is quite costly and largely benefits wealthy Kansans.

The Senate and House plans would each allow a temporary sales tax rate increase to expire, but the House plan would eliminate the sales tax on food. Both plans, taken as a whole, are quite expensive, but the House plan would be even more so because it would eventually repeal the income tax outright.

Three Kansas Tax Plans: A Comparison

	Governor	Senate	House
Reduce Income Tax Rates	✔	✔	✔
Rate Reduction Linked to Revenue Growth	✔		✔
Exempt Business Income	✔	✔	✔
Eliminate Food Sales Tax Rebate	✔	✔	✔
Increase Standard Deduction for HOHs	✔	✔	✔
Eliminate Earned Income Tax Credit	✔		✔ (cuts credit to 9%)
Increase Standard Deduction for MFJ		✔	
Eliminate Credit for Renters	✔	✔	
Allow Temporary Sales Tax Rate Hike to Expire		✔	✔
Eliminate Sales Tax on Food			✔
Eliminate Itemized Deductions	✔		

Senate Proposal (Senate Substitute for HB 2117)

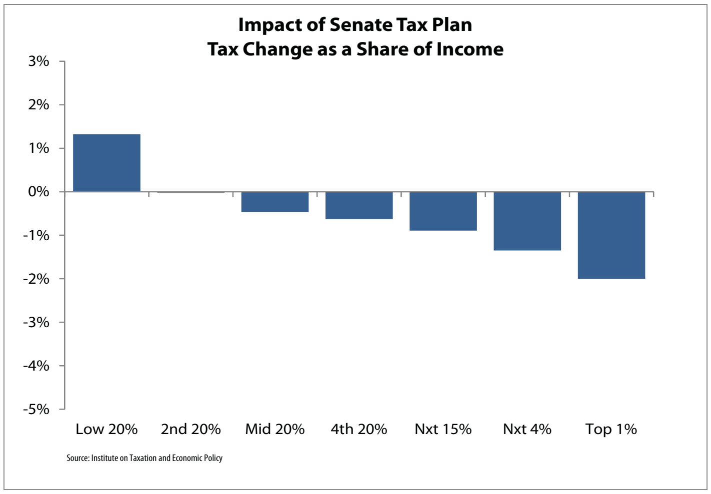
The Senate's plan is based largely on the Governor's plan, but doesn't include the revenue raising provisions that the Governor included in his plan (including itemized deduction repeal and extending a temporary sales tax rate increase). Thus, the Senate's plan is much more expensive than the Governor's proposal.

Key components of the Senate's plan include:

- Reducing and compressing tax rates to 3.0 and 4.9 percent.
- Exempting all "pass-through" business income from the personal income tax base.
- Eliminating some tax credits including the Food Sales Tax Rebate (but maintaining the Earned Income Tax Credit).
- Increasing the standard deduction for head of household filers and married couples.
- Eliminating the Homestead Property Tax Refund for renters.
- Allowing the temporary increase in the state sales tax rate to expire.

The Senate Plan's Impact on Kansans

The only income group that would see their taxes increase under the Senate plan are the poorest 20 percent of Kansans, those with an average income of just $11,000.



- In fact, under the Senate proposal, the poorest 20 percent of Kansas taxpayers would pay 1.3 percent more of their income in taxes each year, or an average increase of $148.
- The middle 20 percent of Kansas taxpayers would pay 0.5 percent less of their income in taxes, or an average tax cut of about $212.
- The wealthiest one percent of Kansans would see the biggest benefit from this proposal. Their state income taxes would drop by about $21,087 on average, or 2 percent of their income.

Estimated cost of the Senate proposal in 2011: $764 million[1]

House of Representatives Proposal (House Substitute for SB 117)

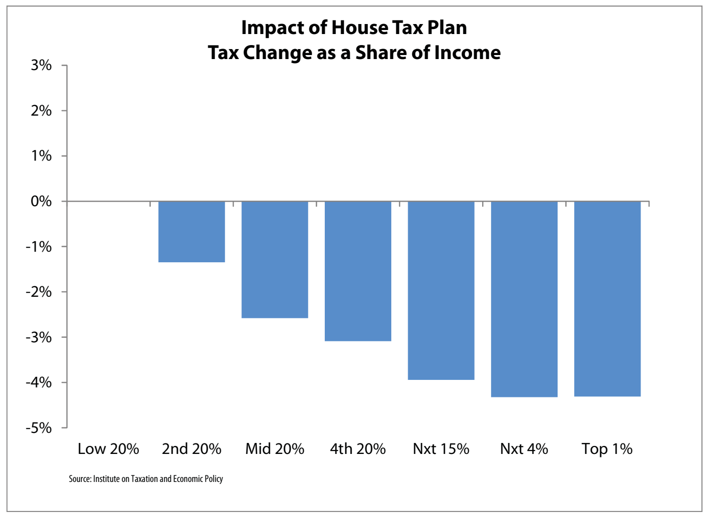
Although the official fiscal note makes the House bill appear less expensive than the Senate's plan, the long term revenue impact of the House plan is far more regressive than the Senate plan. This is because the House bill would eventually repeal the individual income tax, corporate income tax, and the financial institutions privilege tax.

Key components of the House's plan include:

- Creating a formula which would reduce income tax rates in any year when general fund revenues grow by more than three percent. With regular, cumulative rate cuts, the ultimate outcome would be complete repeal of the income tax.
- Exempting all "pass-through" business income from the personal income tax base.
- Eliminating the Food Sales Tax Rebate and reducing the Earned Income Tax Credit to 9 percent of the federal credit.
- Increasing the standard deduction for head of household filers.
- Exempting most food from the sales tax base.
- Allowing the temporary increase in the state sales tax rate to expire.

The House Plan's Impact on Kansans

The House plan is both costly and regressive. The wealthiest eighty percent of the income distrubution will see an income cut as a result of this tax plan.



- Under the House bill, the poorest 20 percent of Kansas taxpayers would likely see their tax liability remain the same.
- Yet, those in the middle twenty percent, with an average income of $46,000, would see a tax cut of $1,178, on average.
- Upper-income families, by contrast, reap the greatest benefit from the House proposal, with the richest one percent of Kansans, those with an average income of over a million dollars, saving an average of $45,412 a year.

Estimated cost of the House proposal in 2011: $2.4 billion[2]

[1] ITEP Microsimulation Tax Model, March 2012. The supplemental note on Senate Substitute for House Bill 2117 prepared by the Legislative Research Department finds that the cost of the legislation in FY2017 will be $911.1 million. ITEP's estimate shows the impact of the Senate plan if fully phased in at 2011 income levels.

[2] ITEP Microsimulation Tax Model, March 2012. The supplemental note on House Substitute for Senate Bill 117 prepared by Legislative Research Department finds that the cost of the legislation in FY 2017 is $530.3 million. ITEP's estimate shows the impact of the House plan if fully phased in at 2011 income levels.

Conclusion

Kansas currently has a regressive tax structure. The poorest Kansans pay substantially more in state and local taxes, as a share of their income, than wealthier Kansans. Both the House and Senate tax plans would make the state's tax system even more unfair.

Starting this week Kansas lawmakers will be meeting to reconcile the differences between the House and Senate proposals. Lawmakers should be especially aware of the long term cost of these proposals and their impact on tax fairness. Both the House and Senate passed plans would sharply reduce tax revenues overall while making the tax system more unfair.

Appendix:

Kansas Tax Plans: Their Impact by Income Group *Kansas Residents, 2011 Income Levels*								
2011 Income Group	Low 20%	2nd 20%	Mid 20%	4th 20%	Nxt 15%	Nxt 4%	Top 1%	
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	$ State Impact (thousands)
Average Income in Group	$11,000	$28,000	$46,000	$73,000	$116,000	$237,000	$1,054,000	
Impact of Senate Plan								
Tax as % of Income	+1.3%	–0.0%	–0.5%	–0.6%	–0.9%	–1.3%	–2.0%	$ –764,000
Average Tax Change	148	–5	–212	–455	–1,038	–3,198	–21,087	
Impact of House Plan Assuming Full Individual Income Tax Repeal								
Tax as % of Income	+0.0%	–1.3%	–2.6%	–3.1%	–3.9%	–4.3%	–4.3%	$ –2,402,000
Average Tax Change	0	–373	–1,178	–2,242	–4,579	–10,241	–45,412	

SOURCE: Institute on Taxation and Economic Policy, March 2012