TO: Kansas Editors and Columnists
FROM: Matthew Gardner, Institute on Taxation and Economic Policy
RE: Costs of Personal Income Tax Repeal in Kansas
DATE: October 4, 2011

Dear Journalist,

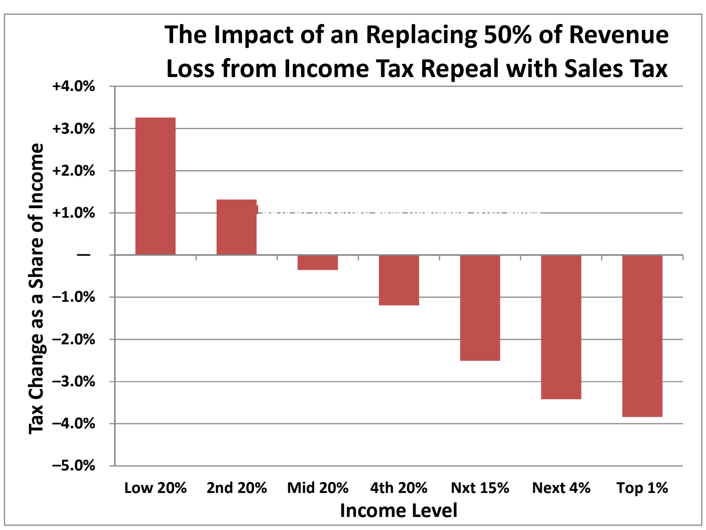
Because of our concern over reports that legislative leaders and Governor Sam Brownback seek to reduce and possibly repeal the Kansas personal income tax, we are contacting you to share our analysis of how such a policy change might affect Kansas families, and how the revenue loss from this proposal would have to be made up.

Given the challenging fiscal climate facing Kansas, the proposed income tax plan should be thought of not simply as a tax cut but as a tax swap. News reports confirm our expectation that revenues from income taxes would be at least partially replaced by sales and property taxes under the Governor's plan. The graphic below illustrates the costs of such a swap under varying scenarios. Outright repeal of the income tax would create a $2.6 billion hole in the state's budget if implemented in 2011.

The graph below shows how Kansas taxpayers at different income levels would be affected by a tax swap that makes up a specified percentage of the state revenue loss through sales tax hikes. (While this loss could also be made up through property tax hikes, the property tax is a less obvious revenue-raising vehicle for the state because it's primarily a local tax.)

Among the findings are that:

- If 25% of the revenue loss from income tax repeal were made up through a sales tax rate increase, the poorest 40 percent of Kansans would see <u>a net tax hike</u> from this change, and the state sales tax rate would have to be increased by 1.8 percentage points, from the current 6.3 to 8.1. (This would mean that the statewide average combined state and local sales tax would go up from 8 to 9.8 percent.)
- If 50% of the revenue loss were made up with sales tax hikes, the state sales tax rate would have to be increased by 3.6 percentage points, from 6.3 to 9.9, pushing the statewide average state/local rate up to 11.6 percent.
- If every dime of the income tax cut were ultimately paid for by increases in state sales taxes, the poorest 80 percent of Kansans would, as a group, see a tax hike overall. This "revenue-neutral" approach to income tax repeal would require a statewide average sales tax rate of 13.5 percent.



**How Would an 'Income Tax Swap' Affect Kansas Tax Fairness?**

Kansas Residents, 2011 Income Levels

| 2011 Income Group | Low 20% | 2nd 20% | Mid 20% | 4th 20% | Nxt 15% | Next 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 | NOTE: required hike in state sales tax rate | NOTE: new combined state/local sales |
| Average Income in Group | $10,000 | $30,000 | $50,000 | $70,000 | $120,000 | $240,000 | $1,050,000 | | |
| **Tax Change as % of Income from Various "Tax swaps"** | | | | | | | | | |
| Replace 25% of Revenue Loss | +2.1% | +0.3% | −1.2% | −2.0% | −3.1% | −3.8% | −4.1% | 1.8% | 8.1% |
| Replace 50% of Revenue Loss | +3.3% | +1.3% | −0.4% | −1.2% | −2.5% | −3.4% | −3.8% | 3.6% | 9.9% |
| Replace 100% of Revenue Loss | +4.5% | +2.4% | +0.5% | −0.4% | −1.9% | −3.0% | −3.6% | 7.2% | 13.5% |

***SOURCE:*** Institute on Taxation and Economic Policy Microsimulation Tax Model, September 2011

Governor Brownback is among a growing number of political leaders pointing to Texas as a model for tax policy. But the Texas tax system is, by such measures as fairness and sustainability, a failure. Texas has the fifth most regressive tax structure in the nation, meaning that only four states lean more heavily on low- and middle-income families to fund public investments. The poorest 20 percent of Texans pay 12.2 percent of their income in Texas taxes, compared to just three percent that the very best-off one percent spend.

The state's tax system is also responsible for a chronic underfunding of public investments that helps to explain Texas' dismal ranking on many important social indicators from education to poverty to health care. Texas ranks 45th in terms of SAT Scores, and 50th in terms of the percent of the population with a high school diploma. Texas has the highest percentage of uninsured citizens, and the second highest percentage of the population experiencing food insecurity in the nation. Texas taxes are among the lowest in the nation, and the price Texas residents have paid for this low-tax ranking is a public infrastructure that fails its citizens in a host of ways.

The Institute on Taxation and Economic Policy (ITEP) is a non-profit, non-partisan research organization, based in Washington, DC where we focus on federal and state tax policy. ITEP created and maintains its own "microsimulation tax model" which we update daily and is capable of analyzing the tax systems of all fifty states, the District of Columbia, and the federal government. It is the same type of tax model used by the U.S. Treasury Department, the Congressional Joint Committee on Taxation, the Congressional Budget Office and many state revenue departments.

ITEP is committed to fair and sustainable tax laws that protect lower income Americans from regressive policies while generating revenues adequate to serve the public interest. We regularly work with lawmakers and the policy community to evaluate tax proposals, as we have done here.

Please feel free to contact us regarding this or any matter related to personal, corporate or consumption tax policy in Kansas – we'd be happy to provide our opinion or quick analyses for your ongoing coverage.

Sincerely,
Matt