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Latest Kansas Tax Bill Carries $680 Million Price Tag and Raises Taxes on Those Least Able to Pay

A joint House-Senate conference committee is poised to approve a revised version of the tax bill recently sent to the Governor by the House of Representatives. An Institute on Taxation and Economic Policy (ITEP) analysis of the agreed-upon tax bill shows that it would reduce state tax collections by about $680 million a year, and increase taxes on the poorest 20 percent of Kansans.

The conference committee plan exempts all 'pass-through' business income from the personal income tax; cuts income tax rates; repeals a variety of itemized deductions including those for medical expenses and property taxes. It also eliminates a tax credit for low-income renters and reduces the earned income tax credit for low-income workers.

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 $680 million. The two most expensive components of the legislation are a reduction in income tax rates 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] In addition, 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 $75 million.

Extreme Fairness Implications

Despite its massive cost, the conference committee bill would actually increase taxes on the poorest 20 percent of Kansans while reducing taxes on every other income group. 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 $69, on average. By contrast, those in the top 1 percent will receive an average state tax cut of about $20,000, even as that group already pays a smaller portion of its income in state and local taxes than do lower and middle-income Kansans.[2]

[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.

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	+0.6%	–0.2%	–0.3%	–0.5%	–0.7%	–1.2%	–1.9%	$ –679,000
Average Tax Change	69	–47	–130	–359	–819	–2,907	–19,892	

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