

KANSAS TAX POLICY OVERVIEW

History and Impact of Tax Policy Choices

Rep. Steven C. Johnson
House Tax Chair

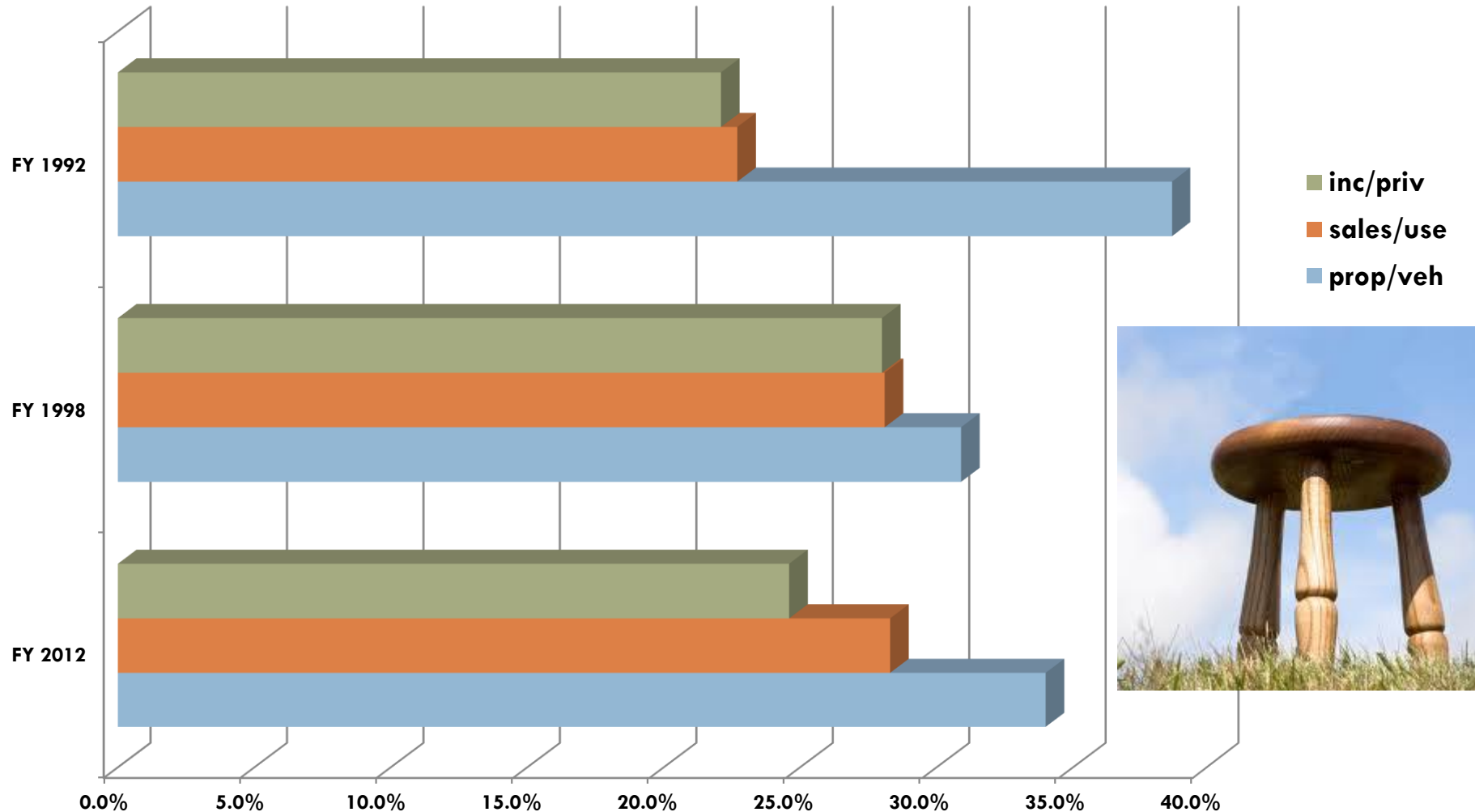


Little Rock, AR
December 5, 2017

Arkansas Tax Reform & Relief Task Force
Multi Agency Complex

3 Legs of State/Local Finance “Stool”

(Percent of State and Local Taxes by Source for Selected Years)



2012-15: Many Tax Policy Changes

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- **2012: Major Income Tax Cuts, No Budget Cuts, Passed with House Concur**
 - **2013: New Legislature Does Not Change Income Tax Plan, Begin Spending Ending Balances**
 - **2014: Receipts Fall Well Below Expectations, Setting Table for Additional Back-Filling Tax Increases in 2015**
 - **2015: Gov's Initial \$211 million Tax Hike Proposal Found Inadequate as Receipts Continue to Slide During Winter Months**
 - **2015: Record-Long Legislative Session Finally Produces \$384 million Tax Package for FY 2016.**

Major Tax Policy Changes 2012-15

Individual Income Tax Brackets, Married Filing Jointly

	<u>1992-2012</u>	<u>2016-17</u>	<u>2018-20</u>	<u>2021-</u>
\$0-30k	3.50%	2.70%	2.60%	“Glide- Path” Formula
\$30k-60k	6.25%	4.60%	4.60%	
\$60k+	6.45%	4.60%	4.60%	

Note: All non-wage business income exempt since 2013.

Sales Tax increase from 5.70% to 6.15% to 6.50%

Cigarette Tax increase from \$0.79 to \$1.29/pack

Income Rates were set to go to 2.3% and 3.9% in 2018

Est Impact, 2012-15 Tax Changes

(\$ in millions)

	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>6-yr total</u>
Individual Income Tax	(\$249.2)	(\$733.1)	(\$885.9)	(\$848.8)	(\$919.5)	(\$949.1)	(\$4,585.5)
Sales/Use Tax	\$0.0	\$193.2	\$218.7	\$391.1	\$422.1	\$438.0	\$1,663.1
Severance Tax	\$18.0	\$45.0	\$60.0	\$70.0	\$75.0	\$80.0	\$348.0
Cigarette, E-Cig Tax				\$40.4	\$38.4	\$38.0	\$116.8
Tax Amnesty				\$30.0			\$30.0
Total	(\$231.2)	(\$494.9)	(\$607.2)	(\$317.3)	(\$384.0)	(\$393.1)	(\$2,427.6)

Source: Kansas Department of Revenue

2016: A Time of Transition?



Election Year with all 165 legislative seats on ballot. No new major tax actions taken despite major efforts.

With a growing calls for income tax reform – especially changes to non-wage income exemption - new faces win elections in August and November.

With another shortfall in our November forecast, the question was if our fiscal crisis had become ongoing and institutionalized. Income taxes had been reduced while increasing sales/excise taxes. Both tax bases appeared to be shrinking. How would this continue to play out?

Heading into the 2017 Session ...



What portions of the Governor's budget and tax recommendations would be adopted by lawmakers?

Many were advocating for more long-term structural fixes that rely less on one-time measures including securitizing and borrowing.

Projections were showing FY 18 and 19 budget many hundreds of millions in the red ink despite borrowing.

2017 SB 30: Income Tax Reform

<u>Individual Income Tax Brackets, Married Filing Jointly</u>					
		Tax Year	Old Law	New Law	New Law
<u>Taxable Income</u>		<u>1992-2012</u>	<u>2017</u>	<u>2017</u>	<u>2018-</u>
\$0-\$30k		3.50%	2.70%	2.90%	3.10%
\$30k-60k		6.25%	4.60%	4.90%	5.25%
\$60k+		6.45%	4.60%	5.20%	5.70%

Enacted over veto. Three brackets restored. Non-wage exemption repealed. Glide-path formula repealed. Itemized deductions for medical expenses, mortgage interest and property taxes paid restored over time. Child and dependent care tax credit restored.

Fiscal Impact: New Income Tax Law

(\$ in millions)

FY 18	\$591.0
FY 19	\$633.0
FY 20	\$617.4
FY 21	\$584.4
FY 22	\$590.3

State Financial Overview, Sep '17

SGF Profile: Ending balances low, negative in 2021

Timing Issues: When will new money arrive?

Funding Issues Remain:

- *K-12 funding*
- *Roads, infrastructure*
- *Higher Education*
- *Public Safety/Prisons*
- *KPERS*
- *Repay borrowing*

Arkansas Task Force Questions

- Biggest Challenges?
 - ▣ Differing Objectives, Getting agreement and votes
- What factors Considered?
 - ▣ 2012 – Driving Growth, Business Friendly
 - ▣ 2017 – Fiscal Balance, Address Shrinking base
- Strategy for Long-Term Tax Relief
 - ▣ 2012 – Stimulate Business
 - ▣ 2017 – Protect Taxpayers from Higher Property Tax, Passing more financial issues to future taxpayers

Arkansas Task Force Questions

- What to Avoid?
 - ▣ Making Big Changes at one time
 - ▣ Not Learning from Policy Change, Failing to Adjust and Monitor
- Advice for Arkansas?
 - ▣ Discuss What Success Looks Like Before You Start
 - ▣ Discuss How to Measure Policy Change Before Starting
 - ▣ (Both will have to change, but gives you a useful benchmark against which to measure ideas)
 - ▣ See What to Avoid Above (Limit Rush, Monitor, Adjust)
 - ▣ Focus on Better, Not Perfect, and Begin

Arkansas Task Force Questions

- Balanced Budget Amendment an Issue?
 - No
 - Affects decisions on ending balances, rainy day funds, budget priorities, Governor's authority to make allotments

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Thanks for the Discussion!

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