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Kansas
CENTER FOR ECONOMIC
GROWTH

# Kansas Tax Failures: Key Takeaways

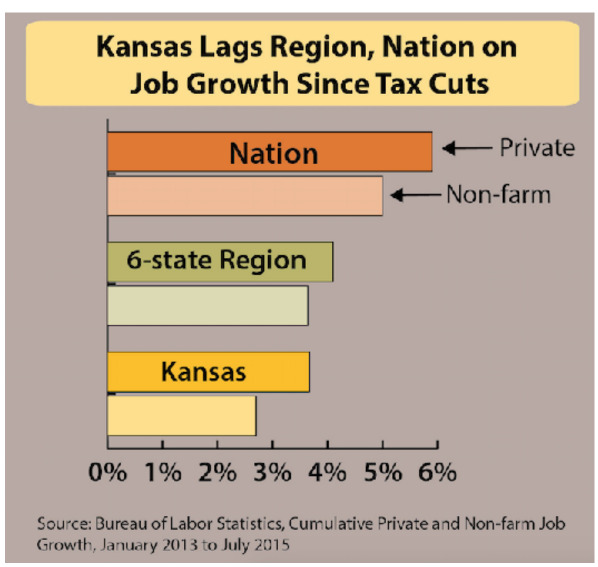
## 1. A Perpetual Budget Crisis

After four years of declining revenue as a result of the Great Recession, Kansas was well on its way to economic recovery in 2012. With the economy stabilizing, Kansas ended the fiscal year with a nearly $500 million (and growing) surplus.


Then, during the 2012 legislative session, Kansas made unprecedented changes to the state tax structure, eliminating income taxes altogether for some businesses and setting individual income tax rates on a "March to Zero." Proponents of the plan promised it would create jobs, grow the Kansas economy, stop population decline, and leave plenty of state revenue to fund critical services like strong schools, safe neighborhoods and good roads.

Three years, two credit downgrades, multiple rounds of budget cuts, and two sales tax hikes later, Kansas finds itself engulfed in a perpetual budget crisis. The state kicked off Fiscal Year 2016 with a record high "payday loan" just to ensure the state has the cash flow to meet basic needs, like payroll. Even after all this, Kansas faces yet another budget gap in Fiscal Year 2016, with no end in sight.

## 2. A "Shot of Adrenaline" Turns to Morphine




When he signed the 2012 income tax package into law, Governor Brownback declared it would be like a "shot of adrenaline to the heart of the Kansas economy," resulting in a jobs boom across the state. This hasn't happened. In fact, Kansas actually lags the region (and the nation as a whole) in economic growth. The state gross product growth, private sector employment growth, and private sector wage growth have all dropped behind the region's average since the 2012 tax plan was signed into law. Without a sustainable tax structure to support critical economic investments like good schools and strong roads, Kansas is stuck while its neighbors move ahead.

### Kansas Quick Facts

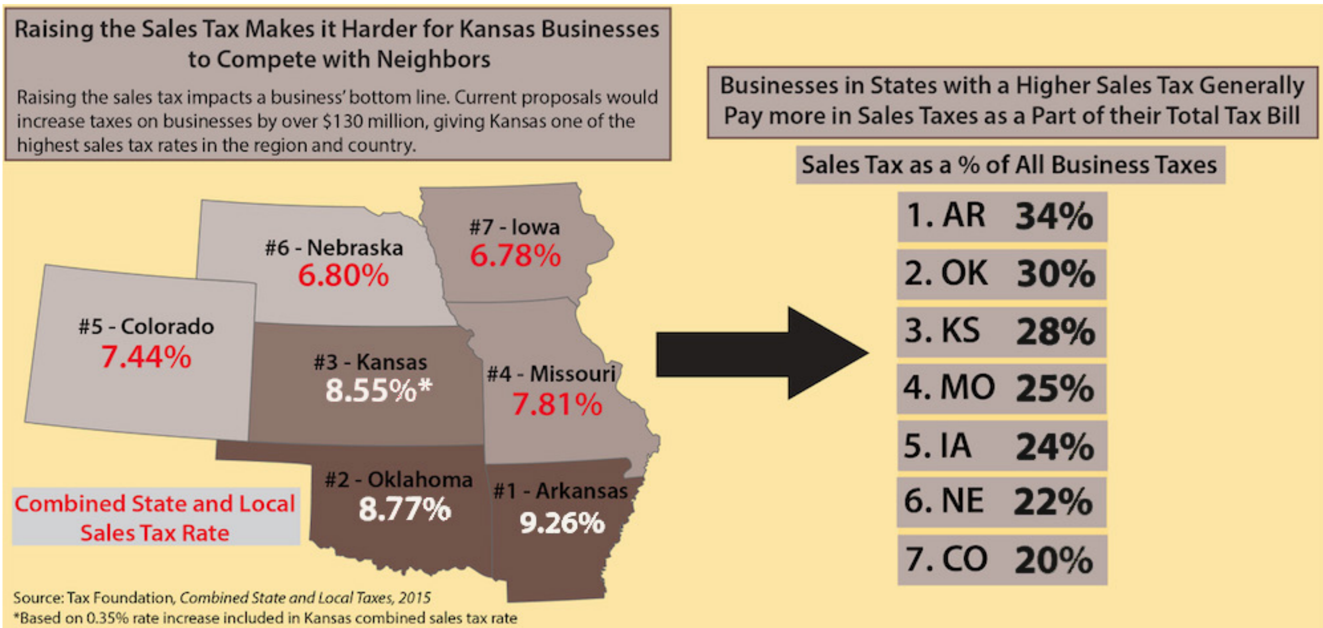
- At the time the 2012 tax package was enacted, Kansas state income tax accounted for approximately 50% of the state general fund. The current tax policies aim to reduce that percentage to zero.
- After the 2012 tax package took effect, revenue plummeted. Kansas was forced to pass a $777 million tax hike in 2013 and a $430 million tax hike in 2015. Despite this additional revenue (and deep spending cuts), there is still a $400 million gap between state revenues and expenditures.
- Although the 2012 package exempts pass-through income for some businesses, 28.2% of Kansas businesses lost income and were unable to deduct it from their tax returns in 2014.
- According to the Kansas Department of Revenue, less than 1% of Kansas businesses netted enough revenue from the tax cut to create just one full-time job.


Kansas Center for Economic Growth
785.783.7370
www.realprosperityks.com
@ksprosperity
facebook/KSCEG

## 3. It's a Tax Shift, Not a Tax Cut.

In the three years since the 2012 tax plan took effect, Kansas has been forced to enact two significant tax hikes (a $777 million tax hike in 2013, followed by a $430 million tax hike in 2015). These packages raised sales taxes on both Kansas families and our businesses. As a result of diminishing state resources, the 2012 tax package has also placed an added burden on local cities and counties, resulting in property tax increases. Between 2012 and 2013, 67 of Kansas' 105 counties raised property taxes just to meet basic needs.

Unfortunately, despite the significant shift to sales and property taxes, Kansas' financial crisis is not over. Over half of the 2015 revenue package included one-time, temporary stopgaps, like sweeps from other funds. These resources won't be available in future years, which means the state is spending – at minimum – approximately $400 million more a year than it's collecting.




# The Kansas Experiment: Before & After

### *2012: Pre-Tax Plan*

- Kansas ended Fiscal Year 2012 with a $466 million budget surplus.
- Kansas borrowed $400 million internally (referred to as certificates of indebtedness) to help with monthly cash flow.
- Despite two national recessions (2001 and 2008), Kansas' credit rating remained stable from 2000-2012, with no downgrades.
- Proponents of 2012 tax plan cited its necessity in an effort to stop "out-migration" and attract new people to Kansas.

### *2015: Post-Tax Plan*

- Kansas ended Fiscal Year 2015 with an immediate budget shortfall, requiring an additional $63 million in budget cuts.
- Kansas borrowed $870 million internally to help with monthly cash flow - the largest amount in state history.
- Kansas' credit rating has been downgraded twice since 2012, by both Moody's and Standard & Poors. Both cited the rating drop a result of "plummeting revenue."
- U.S. Census reported more people leaving Kansas than moving to Kansas in 2013. In 2014, Kansas continued to trail the region in population growth.