Approved January 14, 1986
Date

MINUTES OF THE Senate COMMITTEE ON Assessment and Taxation.

The meeting was called to order by Senator Fred A. Kerr (Chairperson) at 11:00 a.m./p.m. on Tuesday, January 13, 1987 in room 319-S of the Capitol.

All members were present except:
Senator William Mulich
Senator Leroy Hayden (excused)
Senator Dan Thiessen (excused)

Committee staff present:
Tom Severn, Research Department
Chris Courtwright, Research Department
Don Hayward, Revisor's Office
Sue Pettet, Secretary to the Committee

Conferees appearing before the committee:

Harley Duncan, Secretary to Kansas Department of Revenue

This was a joint Senate and House Tax Committee meeting.

Senator Kerr introduced Harley Duncan, Secretary of Revenue who handed out and explained the booklet on "The Impact of the Tax Reform Act of 1986 on the Kansas Individual Income Tax - January, 1987". (See Attachment 1).

The report addresses only the individual income tax, not the corporate income tax.

The Tax Reform Act of 1986 marks a significant change in the federal income tax code. There are expected to be ramifications to the Kansas income tax structure, both in terms of conformity and revenues. Since the state income tax structure is roughly based on federal adjusted gross income, the removal of deductions at the federal level is expected to cause an increase in the adjusted gross income applicable to Kansas income tax. Thus, if no changes are made in the state income tax structure, income tax revenues are expected to increase. The latest official department estimates are that the revenue would increase $105.0 million in tax year 1987 and $125.0 million in tax year 1988. Secretary Duncan said that such estimates are difficult to predict and that they could be significantly in error. Thus he encouraged caution in changing the income tax structure to quickly neutralize the effects of the "windfall".

The federal changes also increase the number of areas in which state taxes are adjusted from the federal income tax base. Secretary Duncan said that individual tax payers will find their state taxes more complicated to figure out if nothing is changed from current law. He pointed out fourteen areas in which adjustments will now have to be made. He also said that, with no state changes, many people will now have to pay state income taxes who do not have to pay federal taxes. These are generally low income people.

Representative Keith Roe asked if this revenue adjustment situation could accurately be handled in the ninety days of the 1987 legislative session.

Secretary Duncan responded that he thought it would be ill advised to pass legislation to neutralize this "windfall" this session because of the uncertainties.

After several more questions and answers the meeting was adjourned at 12:00.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
Tues. 12-13	JANET STUBBS	Topeka	HBAK
	TOM TUNNELL	HUTCHINSON	KS GRAIN & FEED ASSN.
	Melissa Ohls	Topeka	Sen. Hayden
	Brett Berry	Silver Lake	w/Sen. Salisbury
	Mark Stephenson	Topeka	Sen. Hoferer
	Carol Bonebrake	"	DOR
	Steve Rinker	Emporia	Roe
	Basil Covey	Topeka	KRTA
	Terry Humphrey	Topeka	KMHI
	Lynn Van Aalst	Topeka	KLSI
	Ray Petty	Topeka	KACEH/DHR
	Marilyn Bradt	Lawrence	KINH
	JACK RANSON	WICHITA	RANSON & CO., INC.
	Jim McBride	Topeka	observer

THE IMPACT OF THE TAX REFORM ACT OF 1986 ON THE KANSAS INDIVIDUAL INCOME TAX

KANSAS DEPARTMENT OF REVENUE

HARLEY T. DUNCAN

SECRETARY

JANUARY 1987

Sen. A & T

1/13/87 Att. 1

S-6
(1/87)

Executive Summary

1. The Kansas income tax conforms in many respects to the federal income tax code. The state automatically conforms to the definition of federal adjusted gross income. Also, federal taxes paid are allowed as a deduction for state income tax purposes. Thus, the recently enacted federal reform (which contains a federal tax reduction) will substantially increase the state income tax base and state tax revenues under current law.

2. The estimates presented in the report have been derived from the Individual Income Tax Simulation Model of the Kansas Department of Revenue. A variety of assumptions and constraints must be used to project the impact. The results should be used with caution and are best considered as a range of expected impact rather than a precise point estimate.

3. With no change in taxpayer behavior, the Department estimates that the automatic conformity between the state and federal tax codes will cause state income tax revenues to increase by $124 million in tax year 1987 and $139 million in tax year 1988. The state increase will offset the projected federal reduction in 1987, but in 1988 and beyond the federal tax reduction approaches $300 million annually.

4. The Department has adjusted these estimates to reflect a reduced rate of capital gains realization in 1987 and 1988 and continued sheltering of some income no longer eligible for a deductible deposit in Individual Retirement Arrangements. **Thus, the official Department estimates are $105 million in tax year 1987 and $125 million in tax year 1988.**

5. Approximately 75 percent of this additional burden will fall on taxpayers with a pre-reform Kansas adjusted gross income of greater than $35,000. The average state tax increase runs from about 20 percent at the $35-50,000 AGI level to 44 percent for those with an AGI in excess of $100,000.

6. The Tax Reform Act also makes substantial changes in itemized deductions. These are not incorporated into the Kansas tax automatically. They are, however, of such a magnitude that if Kansas law is not updated to conform to the new federal definitions increased complexity and compliance problems should be expected. Various degrees of conformity could increase state revenues by an additional $40 million to $115 million in tax year 1988.

7. The federal reform also raises other tax policy issues that need to be considered as the State responds to the federal action. These include the effects of the tax reform on interstate tax competition, low income households and certain targeted groups such as the blind, disabled and elderly.

The Impact of the Tax Reform Act of 1986 on the Kansas Individual Income Tax

Introduction

The Tax Reform Act of 1986 marks ~~the most~~ A very significant change in the federal income tax code in a generation. As is the case in most other states, the Kansas individual income tax conforms in many respects to the federal tax code. In certain areas, the state tax conforms automatically to the federal code; in others, legislation would be required to adopt the federal changes. The foremost result of these interrelationships is to increase substantially the Kansas income tax base. The federal reform also raises a variety of other state tax policy issues that the Kansas Legislature will need to address.

This report presents the Kansas Department of Revenue assessment of the impact of the federal Tax Reform Act of 1986 on the Kansas individual income tax. The report includes estimates of the impact on total individual income tax revenues as well as the distribution of the impact across income groups. In addition, several issues related to the effect of the Reform Act on such non-conforming items as personal exemptions, standard deductions and itemized deductions are discussed. The report addresses only the individual income tax and not the corporation income tax.

Basis of the Impact

The primary reason the federal Tax Reform Act affects Kansas income taxes is because of the conformity which exists between the state tax and the federal tax in certain areas. State law provides that the starting point for the computation of state income taxes is the federal Adjusted Gross Income (AGI) of the taxpayer for the year in question. Therefore, those features of the federal reform that affect the computation of income or adjusted gross income are incorporated **automatically** into the state tax code at the time they become effective at the federal level.

The Tax Reform Act substantially broadens the definition of federal AGI. It will, therefore, increase Kansas AGI and state revenues under current law. The major provisions of the federal reform affecting the definition of AGI and the Kansas individual income tax are: (a) repeal of the 60 percent exclusion for long-term capital gains; (b) limits on the deductibility of contributions to Individual Retirement Arrangements; (c) repeal of the special deduction for two-earner households; and (d) inclusion of all unemployment compensation payments as income. Also, those features of the federal reform affecting the computation of income, such as changes in allowable depreciation rates and restrictions on the ability to use tax shelters to offset ordinary income with passive investment losses, will be incorporated into the state tax base.

The second reason the federal reform affects Kansas income tax liability is because it provides a net federal income tax reduction of an average 1.6 percent in 1987 and 6.0 percent in 1988. All Kansas individual income taxpayers are allowed a deduction for federal income taxes paid. Therefore, the federal tax reduction will increase the state income tax base beyond what it otherwise would be.

The Tax Reform Act also makes significant changes in the itemized deductions which may be claimed for federal tax purposes. These changes will not be incorporated automatically into the state income tax because Kansas itemized deductions are tied to federal itemized deductions as they existed for tax years beginning after December 31, 1977 plus and minus certain state modifications. While the new changes will not become part of the state tax code, they will create state-level compliance and complexity problems which should be addressed. Similarly, changes in the federal personal exemption and standard deduction levels are not automatically adopted for state income tax purposes. They do, however, raise certain compliance and equity questions that must be addressed. (See later discussion.)

Source of the Estimates

The estimated impact of the Tax Reform Act on state revenues and individual taxpayers was derived from the Individual Income Tax Simulation Model developed by the Department of Revenue. The model consists of a random sample of 10,000 (about 1 percent) Kansas income tax returns for 1983. The model includes all information on the Kansas Form 40, the federal Form 1040, and the federal Schedule A - Itemized Deductions.

It is important to understand several features of the resulting estimates:

1. All items of income and expense have been inflated from 1983 to 1986 levels based on the actual change in Adjusted Gross Income and expenses shown on 1984 and 1985 returns and the consensus estimate of a 4.0 percent increase in personal income in 1986. The resultant figures are a 17 percent increase in income and a 23 percent increase in expenses.

2. The model has not been adjusted to reflect behavioral changes that may be caused by tax reform. That is, it assumes that activity and behavior for such items as realization of capital gains or tax deferred savings will be the same as in 1983. **Two modifications for behavioral change are reviewed later in the report.**

3. Certain items of change, such as restrictions on passive losses offsetting ordinary income and changes in depreciation, cannot be modelled.

4. The estimates presented are annual, tax year or calendar year figures. Fiscal year figures are contained in the report of the Consensus Revenue Estimating Group.

These assumptions and constraints, while necessary, are nevertheless significant and important to the resulting estimated impacts. The reader is urged to exercise caution in using the estimates contained in the report. They should be viewed principally as a range of expected impact, rather than as a precise point estimate of expected revenues.

Revenue Impact

It is estimated that Kansas individual income tax liability will increase by approximately $124.0 million in tax year 1987 and $139.0 million in 1988 because of those features of the Tax Reform Act to which the State automatically conforms. This represents a 20-22 percent increase over current law receipts. For 1987, the State increase exceeds somewhat the estimated federal tax reduction. In 1988 and thereafter, however, there will be a net tax reduction for Kansans. When the reduced federal tax rates are reflected fully in 1988, the estimated federal tax reduction approaches $300 million annually. The breakdown for 1987 and 1988 is as follows:

Revenue Impact of the Tax Reform Act of 1986
All Kansas Taxpayers -- Tax Year 1987

	State	Federal	Net
Married Resident	$ 91.3	($113.7)	($22.4)
Single Resident	$ 17.8	$ 5.2	$23.0
Total Residents	$109.0	($108.5)	$ 0.5
Non-Residents	$ 15.2	$ 5.1	$20.3
Grand Total	$124.3	($103.4)	$20.9

Dollar Amounts in Millions.

Revenue Impact of the Tax Reform Act of 1986
All Kansas Taxpayers -- Tax Year 1988

	State	Federal	Net
Married Resident	$ 95.1	($159.4)	($ 64.3)
Single Resident	$ 25.3	($ 84.3)	($ 59.0)
Total Residents	$120.4	($243.7)	($123.3)
Non-Residents	$ 18.8	($ 50.2)	($ 31.4)
Grand Total	$139.2	($293.9)	($154.7)

Dollar Amounts in Millions.

The above estimates are based on the earlier stated assumptions regarding change in income and expenses since 1983. To establish a range of expected impact, simulations have been run with no change in income and expenses since 1983 and with a 25 percent increase in income and a 29 percent increase in expenses. Under the "no growth" simulation, the automatic state revenue impact is $97.5 million in 1987 and $109 million in 1988. Under the higher growth scenario, the resultant figures are about $134 million in 1987 and $150 million in 1988. Thus, approximately 25-30 percent of the projected total increase in state liability is attributable to the inflation of the income and expense items. Moreover, in the range of assumptions used here, a 1.0 percent increase in income generates roughly a 1.5 pecent increase in liability.

Behavioral Changes

As stated, no behavioral changes have been incorporated in the income tax simulation model. Yet, it seems clear that taxpayers will change some habits in response to the major changes in the Tax Reform Act. In particular, as the maximum tax rate on capital gains increases from 20 percent to 28 percent in 1987, taxpayers should be expected to realize an increased level of gains in 1986. Also, taxpayers have become accustomed to the tax savings from Individual Retirement Arrangements (IRA). It seems reasonable that those who may no longer make excludable contributions will seek to find other ways to shelter that income, such as increased contributions to deferred compensation plans.

The Department of Revenue therefore has modified the estimates presented above to reflect a reduced rate of capital gains realization in 1987 and 1988 and to reflect some sheltering of income by taxpayers no longer eligible for IRA's. The estimate has been reduced by roughly $15 million to reflect an assumed 25 percent reduction in the capital gains realization rate and by about $5 million to reflect an assumption that one-third of the funds previously deposited to IRA's will be otherwise sheltered. **Therefore, the Department's official estimates are increases of $105 million in 1987 and $125 million in 1988.**

These reductions for behavioral change have not been reflected in the individual taxpayer data displayed below because the effects of them cannot be divided accurately among income groups. Still the data on the distribution of the impact among income groups is instructive and important to those policymakers concerned with the state response to federal tax reform.

Distribution Across Income Groups

The increased **Tax Year 1988** state liability **for all resident taxpayers** breaks down across Adjusted Gross Income groups as shown below. In the table, AGI groups are defined on the basis of pre-reform AGI, i.e., taxpayers are assigned to the income group in which they were prior to implementation of any reform measures which may change the AGI group in which they fall. In other words, the data below can be used to answer the question of **what is the impact of the federal tax reform on the state income tax liability of the average taxpayer in any given income group.**

Distribution of Additional Income Tax Liability by Income Group
All Resident Taxpayers -- Tax Year 1988

Adjusted Gross Income Group	Number of Taxpayers	Increased Liability	Percent of Total
No KAGI	18,737	$ 365.9	0.3%
$0-5,000	123,684	$ 660.2	0.5%
$5-15,000	245,368	$ 4,663.0	3.9%
$15-25,000	186,421	$ 10,201.2	8.5%
$25-35,000	144,737	$ 14,248.8	11.8%
$35-50,000	135,579	$ 28,736.0	23.9%
$50-100,000	70,105	$ 32,071.2	26.6%
Over $100,000	9,684	$ 29,469.0	24.5%
TOTAL	934,315	$120,415.3	100.0%

Dollar Amounts in Thousands.

As shown, the increases are concentrated at the middle and upper income levels with about 75 percent ($100 million) of the increase falling on those taxpayers who, prior to reform, had $35,000 or greater Adjusted Gross Income. Each of the three income groups over $35,000 AGI assumes about one-fourth of the total increase. The concentration among upper income groups is to be expected given that those features of the reform increasing federal Adjusted Gross Income are more common among these groups. Those taxpayers with greater than $35,000 AGI currently constitute about 23 percent of all resident taxpayers, and they pay about 60 percent of the current law liability.

These increases are sizeable relative to current law liability as shown below. Again, the data are **for 1988 for resident taxpayers,** and taxpayers are considered as being in the AGI group in which they were prior to reform.

Average Income Tax Increase by Income Group
All Resident Taxpayers -- Tax Year 1988

Adjusted Gross Income Group	Current Avg. Liability	New Avg. Liability	Dollar Change	Percent Change
No KAGI	$ 0.00	$ 19.53	$ 19.53	- -
$0-5,000	$ 7.97	$ 13.31	$ 5.34	67.0%
$5-15,000	$ 141.09	$ 160.09	$ 19.00	13.5%
$15-25,000	$ 425.03	$ 479.75	$ 54.72	12.9%
$25-35,000	$ 710.25	$ 808.69	$ 98.44	13.9%
$35-50,000	$1,037.26	$1,249.21	$ 211.95	20.4%
$50-100,000	$1,755.15	$2,212.62	$ 457.47	26.1%
Over $100,000	$6,873.45	$9,916.45	$3,043.00	44.3%
TOTAL	$ 586.39	$ 715.28	$ 128.88	22.0%

The increases in average tax liability show marked differences among income groups. Those below $35,000 AGI are relatively uniform at about 12-14 percent increase which reflects that their state liability is affected primarily by the federal tax reduction, rather than changes in the Reform Act. For those with pre-reform AGI in excess of $35,000 the relative change in average liability increases as income increases. This is indicative of the greater use of prior law tax preferences among these taxpayers. The automatic state tax increases under current law run from 20 percent, or just under $20 monthly, for the average $35-50,000 AGI taxpayer to 44 percent, or $250 monthly, for those with an AGI in excess of $100,000.

The data (67% increase) for those with less than $5,000 AGI require explanation. They are heavily influenced by a relatively few taxpayers who had large amounts of previously sheltered income that will now be subject to tax. A person with $5,000 of previously taxed income would not experience such an increase.

Federal tax reform will also affect the distribution of the Kansas income tax burden among income groups because of the magnitude of the impact and its distribution among income groups. The table below presents the distribution of the burden currently and with the effects of reform along with the distribution of taxpayers among Adjusted Gross Income groups on the same basis. The data are for **all resident taxpayers for tax year 1988.**

Distribution of Taxpayers and Income Tax Burden
By Income Group
All Resident Taxpayers -- Tax Year 1988

Adjusted Gross Income Group	TAXPAYERS Current	TAXPAYERS Reform	TAX BURDEN Current	TAX BURDEN Reform
No. KAGI	2.0%	1.7%	0.0%	0.1%
$0-5,000	13.2%	12.2%	0.2%	0.2%
$5-15,000	26.3%	25.5%	6.3%	5.9%
$15-25,000	20.0%	19.9%	14.5%	13.4%
$25-35,000	15.5%	15.5%	18.8%	17.5%
$35-50,000	14.5%	14.4%	25.7%	25.3%
$50-100,000	7.5%	9.5%	22.5%	23.2%
Over $100,000	1.0%	1.3%	12.1%	14.4%
TOTAL	100.0%	100.0%	100.0%	100.0%

A further breakdown of the impact of the Tax Reform Act on the state income tax liability by AGI group for both tax years 1987 and 1988 is presented in Appendix A of this report.

Itemized Deductions

The Tax Reform Act also makes significant changes in the itemized deductions allowed taxpayers. These include repeal of the deduction for state and local sales taxes, phase-out of the deduction for non-mortgage interest payments, further limits on medical expense deductions, conversion of the moving expense and unreimbursed business expense adjustments to itemized deductions, and limits on miscellaneous deductions and unreimbursed business expenses.

These changes do not flow through automatically to the Kansas tax because it is tied to federal itemized deductions as of a specific date (December 31, 1977.) However, if the Kansas reference date for conformity is not updated from 1977 to the new law, significant compliance tools will be lost and figuring Kansas itemized deductions will become more complex. Kansas already non-conforms to federal deductions on the gas tax, casualty losses and political contributions because we have not updated from 1977 to 1981. Failure to update would introduce at least five new non-conforming items. A list of areas in which Kansas law will non-conform to federal itemized deductions unless current law is changed is presented in Appendix B.

The data below present the estimated fiscal impact that would result from varying degrees of conformity with federal itemized deductions. The options include: (a) conforming to all federal itemized deductions but still allowing the current Kansas medical expense deduction and the deduction for social security and employment-related taxes and (b) conforming to the federal medical expense deduction and repealing the deduction for social security and employment-related taxes.

Revenue Impact of Conforming to Federal Itemized Deductions
As Contained in the Tax Reform Act of 1986
All Taxpayers

	1987	1988
Conform to all but Medical and Employment Taxes	$ 29.1	$ 38.9
Full Conformity	$103.8	$114.4

Dollar Amounts in Millions.

The distribution of this additional liability is similar to that of the increased burden arising from the automatic conformity. The $25,000 to $35,000 income group, however, assumes a somewhat larger proportion, while those over $100,000 AGI assume proportionately less. This reflects the relative importance of itemized deductions among income groups.

As with the changes to Adjusted Gross Income, it is reasonable to expect that taxpayers will to some degree adjust their behavior to the changes in itemized deductions. In particular, it appears that "equity" or "second" mortgages will be available to allow customers to shift some portion of their debt to loans on which the interest payments will remain deductible. The Department of Revenue has accordingly reduced its estimate of the effects of conforming to itemized deductions (from those shown above) by about $6 million in 1987 and $10 million in 1988.

Related Policy Issues

Interstate Tax Competition. Federal tax reform is likely to intensify the tax competition among states. Put another way, it will increase the degree to which interstate differences in tax levels are noticed by taxpayers. Under prior federal rates, upper income taxpayers could offset up to 50 percent of their state and local liability against their federal tax. As the maximum marginal federal rate drops to 28 percent, the value of the state and local tax deduction will drop correspondingly. The state should therefore consider using the opportunity offered by the expanded tax base to reduce its tax rates to the degree possible consistent with other policy objectives and with other issues raised by the federal reform.

Tax Equity. Kansas will also need to assess the effect of the federal reform on low income households. At the federal level, the "tax free" threshold (combination of standard deduction and personal exemptions) for a family of four will rise to $12,800 by 1988. This is expected to remove about 6 million taxpayers from the rolls. The same figure is $6,800 under current Kansas law. The result is that without changes in state law, many taxpayers will owe a state liability, but no federal tax. Given the regressivity of other state and local taxes, consideration should be given to raising the income tax thresholds. Further, since the starting point for state taxes is federal adjusted gross income, the state will lose some compliance tools, and taxpayers will have to complete federal returns on which no tax is owed.

Double Personal Exemptions. Kansas currently conforms to the number of personal exemptions allowed at the federal level. Under prior federal law, each blind, disabled and elderly taxpayer was accorded two personal exemptions. Under the Tax Reform Act, the double personal exemption is repealed, but the blind, disabled and elderly are accorded higher standard deductions and the personal exemption is increased for all taxpayers. Under current Kansas law, these changes will not be adopted automatically. Blind, elderly and disabled taxpayers will lose their second personal exemption and be disadvantaged compared to their current position.

Standard Deduction Filers. State law does not allow a taxpayer to itemize deductions on the state return unless the taxpayer also itemizes on the federal return. With the greater restrictions on federal itemized deductions, fewer taxpayers will be able to avail themselves of this opportunity. They will be compensated, at least partially, on the federal level by a higher standard deduction. This will not be the case at the state level unless the state standard deduction is increased. Currently about 39 percent of the taxpayers itemize deductions; this proportion will decline to an estimated 31.5 percent, a reduction of roughly 70,000 taxpayers, by 1988. This group will also be disadvantaged compared to their current position.

Conclusion

The Tax Reform Act of 1986 will have a significant impact on the Kansas individual income tax. Not only does it substantially increase state income tax revenues under current law, but it presents the State with several significant tax policy issues which must be addressed. As such, it presents state policymakers with the opportunity and challenge to accomplish a major reform of the state income tax code.

APPENDIX A

SIMULATION NO. 6172: TAX REFORM ACT OF 1986

TAX YEAR 1987

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986
Resident Taxpayers
Impact By Bracket

TAX REFORM ACT OF 1986

Married

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	11,263	0.0%	$0.00	$0.00	0.0%
$0 $5,000	14,947	1.5%	$204.08	$0.01	0.0%
$5,000 $15,000	73,895	3.7%	$250,183.67	$3.39	0.9%
$15,000 $25,000	98,842	1.5%	$502,191.84	$5.08	1.7%
$25,000 $35,000	106,947	5.0%	$3,569,663.27	$33.38	2.3%
$35,000 $50,000	118,842	9.1%	$11,179,739.80	$94.07	2.7%
$50,000 $100,000	78,842	40.6%	$44,088,774.49	$553.20	3.0%
$100,000 Over	10,947	59.3%	$31,660,301.02	$2,892.05	3.9%
Total	514,526	23.0%	$91,251,058.16	$177.35	2.7%
Fiscal Impact:			$91,251,058.16		
All Taxpayers:			$124,300,482.65		

Single

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	5,789	0.0%	$0.00	$0.00	0.0%
$0 $5,000	104,105	5.0%	$48,163.27	$0.46	0.3%
$5,000 $15,000	166,421	4.5%	$1,257,118.37	$7.55	1.8%
$15,000 $25,000	85,158	7.3%	$3,334,348.98	$39.15	3.0%
$25,000 $35,000	34,421	1.4%	$431,739.80	$12.54	3.2%
$35,000 $50,000	15,263	11.6%	$2,081,773.47	$136.39	3.2%
$50,000 $100,000	6,947	17.4%	$2,530,378.57	$364.22	3.9%
$100,000 Over	1,684	61.7%	$8,118,979.55	$4,820.64	4.5%
Total	419,789	11.7%	$17,802,502.04	$42.41	2.8%
Fiscal Impact:			$17,802,502.04		
Non-Resident:			$15,246,922.45		

Total Residents

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	17,053	0.0%	$0.00	$0.00	0.0%
$0 $5,000	119,053	4.9%	$48,367.35	$0.41	0.3%
$5,000 $15,000	240,316	4.4%	$1,507,302.04	$6.27	1.5%
$15,000 $25,000	184,000	4.8%	$3,836,540.82	$20.85	2.3%
$25,000 $35,000	141,368	3.9%	$4,001,403.05	$28.30	2.5%
$35,000 $50,000	134,105	9.4%	$13,261,513.27	$98.89	2.8%
$50,000 $100,000	85,789	37.9%	$46,619,153.06	$543.41	3.1%
$100,000 Over	12,632	59.8%	$39,779,280.61	$3,149.19	4.0%
Total	934,316	15.9%	$109,053,560.20	$116.72	2.7%
Fiscal Impact:			$109,053,560.20		

SIMULATION NO. 6172: TAX REFORM ACT OF 1986

TAX YEAR 1987

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986
Resident Taxpayers

Current Law

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Of KAGI	Married: Liability	Married: Percent Of Total	Married: Effective Rate	Single: No. Of Returns	Single: Percent Of KAGI	Single: Liability	Single: Percent Of Total	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Of KAGI	Total Residents: Liability	Total Residents: Percent Of Total	Total Residents: Effective Rate
No K.A.G.I.	12,526	0.0%	$0.00	0.0%	0.0%	6,211	0.0%	$0.00	0.0%	0.0%	18,737	0.0%	$0.00	0.0%	0.0%
$0 $5,000	16,632	0.3%	$13,571.43	0.0%	0.0%	107,053	5.2%	$972,779.59	0.2%	0.3%	123,684	1.5%	$986,351.02	0.2%	0.3%
$5,000 $15,000	78,526	4.8%	$6,736,626.53	1.2%	0.9%	166,842	27.3%	$27,882,173.47	5.1%	1.8%	245,368	10.6%	$34,618,800.00	6.3%	1.5%
$15,000 $25,000	102,526	12.2%	$33,804,234.69	6.2%	1.7%	83,895	28.0%	$45,429,657.14	8.3%	2.9%	186,421	16.2%	$79,233,891.84	14.5%	2.2%
$25,000 $35,000	110,000	19.5%	$70,886,929.59	12.9%	2.2%	34,737	17.4%	$31,911,936.73	5.8%	3.3%	144,737	18.9%	$102,798,866.33	16.8%	2.5%
$35,000 $50,000	121,789	29.8%	$122,719,284.69	22.4%	2.5%	13,789	9.7%	$17,911,536.73	3.3%	3.3%	135,579	24.6%	$140,630,821.43	25.7%	2.6%
$50,000 $100,000	64,211	24.0%	$108,511,577.55	19.8%	2.8%	5,895	6.5%	$14,533,455.10	2.7%	4.0%	70,105	19.5%	$123,045,032.65	22.5%	2.3%
$100,000 Over	8,316	9.5%	$53,398,809.10	9.7%	3.4%	1,368	6.0%	$13,165,155.10	2.4%	3.9%	9,684	8.6%	$66,563,964.29	12.1%	3.5%
Total	514,526	100.00%	$396,071,033.67	72.29%	2.4%	419,789	100.00%	$151,806,693.88	27.71%	2.7%	934,316	100.00%	$547,877,727.55	100.00%	2.5%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986
Resident Taxpayers

TAX REFORM ACT OF 1986

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Of KAGI	Married: Liability	Married: Percent Of Total	Married: Effective Rate	Single: No. Of Returns	Single: Percent Of KAGI	Single: Liability	Single: Percent Of Total	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Of KAGI	Total Residents: Liability	Total Residents: Percent Of Total	Total Residents: Effective Rate
No K.A.G.I.	11,263	0.0%	$0.00	0.0%	0.0%	5,789	0.0%	$0.00	0.0%	0.0%	17,053	0.0%	$0.02	0.0%	0.0%
$0 $5,000	14,947	0.2%	$13,775.51	0.0%	0.0%	104,105	4.9%	$1,020,942.86	0.2%	0.3%	119,053	1.4%	$1,034,718.37	0.2%	0.3%
$5,000 $15,000	73,895	4.3%	$6,986,810.20	[illegible]	0.9%	166,421	26.2%	$23,139,291.64	4.4%	1.8%	240,316	5.8%	$36,126,102.04	5.5%	1.5%
$15,000 $25,000	98,842	11.0%	$34,306,426.53	5.2%	1.7%	85,158	27.2%	$48,764,006.12	7.4%	3.0%	184,000	15.1%	$83,070,432.65	12.6%	3.3%
$25,000 $35,000	106,947	17.6%	$74,456,592.86	11.3%	2.3%	34,421	16.4%	$32,343,676.53	4.9%	3.2%	141,368	17.3%	$126,800,265.39	16.3%	2.5%
$35,000 $50,000	118,842	27.2%	$133,899,024.49	20.4%	2.7%	15,263	10.3%	$19,993,310.20	3.0%	3.2%	134,105	22.9%	$153,892,334.69	23.4%	2.8%
$50,000 $100,000	76,842	27.8%	$152,600,352.24	23.2%	3.0%	8,947	7.3%	$17,063,833.67	2.6%	3.5%	85,789	22.6%	$123,664,185.71	23.6%	3.1%
$100,000 Over	10,947	11.9%	$85,059,110.22	12.9%	3.9%	1,684	7.7%	$21,284,134.65	3.2%	4.5%	12,632	10.9%	$125,343,244.52	[illegible]	4.2%
Total	514,526	100.0%	$487,322,091.84	74.2%	2.7%	419,789	100.00%	$169,609,195.92	25.6%	2.8%	934,316	100.00%	$556,931,287.75	100.00%	2.7%
Fiscal Impact:			$91,251,058.16					$17,802,502.04					$129,253,560.32		
All Taxpayers:			$124,300,482.65			Non-Resident:		$15,246,922.45							

SIMULATION NO. 6173: TAX REFORM ACT OF 1986

TAX YEAR 1988

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986

Resident Taxpayers

Impact By Bracket

TAX REFORM ACT OF 1986

Married

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	11,263	0.0%	$0.00	$0.00	0.0%
$0 $5,000	14,947	1.5%	$204.08	$0.01	0.0%
$5,000 $15,000	73,895	4.2%	$285,795.92	$3.87	0.9%
$15,000 $25,000	98,842	1.8%	$603,110.20	$6.10	1.7%
$25,000 $35,000	106,947	5.0%	$3,563,948.98	$33.32	2.3%
$35,000 $50,000	118,842	9.5%	$11,701,984.69	$98.47	2.7%
$50,000 $100,000	78,842	43.5%	$47,205,203.06	$598.73	3.1%
$100,000 Over	10,947	59.5%	$31,747,954.08	$2,900.05	3.5%
Total	514,526	24.0%	$95,108,201.02	$184.85	2.7%
Fiscal Impact:			$95,108,201.02		
All Taxpayers:			$139,181,369.39		

Single

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	5,789	0.0%	$0.00	$0.00	0.0%
$0 $5,000	104,105	5.7%	$55,612.24	$0.53	0.3%
$5,000 $15,000	166,421	4.5%	$1,261,097.96	$7.58	1.8%
$15,000 $25,000	85,158	7.6%	$3,467,002.04	$40.71	3.0%
$25,000 $35,000	34,421	4.5%	$1,420,968.37	$41.28	3.3%
$35,000 $50,000	15,263	21.3%	$3,813,148.98	$249.83	3.5%
$50,000 $100,000	6,947	29.3%	$4,251,076.53	$611.90	4.2%
$100,000 Over	1,684	83.8%	$11,038,163.27	$6,553.91	5.2%
Total	419,789	16.7%	$25,307,069.39	$60.29	2.9%
Fiscal Impact:			$25,307,069.39		
	Non-Resident:		$16,766,098.98		

Total Residents

K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	17,053	0.0%	$0.00	$0.00	0.0%
$0 $5,000	119,053	5.7%	$55,816.33	$0.47	0.3%
$5,000 $15,000	240,316	4.5%	$1,546,893.88	$6.44	1.5%
$15,000 $25,000	184,000	5.1%	$4,070,112.24	$22.12	2.3%
$25,000 $35,000	141,368	4.8%	$4,984,917.35	$35.26	2.6%
$35,000 $50,000	134,105	11.0%	$15,515,133.67	$115.69	2.8%
$50,000 $100,000	85,789	41.8%	$51,456,279.53	$599.80	3.2%
$100,000 Over	12,632	64.3%	$42,766,117.35	$3,387.23	4.2%
Total	934,316	22.0%	$120,415,270.41	$128.88	2.8%
Fiscal Impact:			$120,415,270.41		

SIMULATION NO. 6173: TAX REFORM ACT OF 1986

TAX YEAR 1988

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986
Resident Taxpayers

Current Law

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No K.A.G.I.	12,526	0.0%	$0.00	0.0%	0.0%	6,211	0.0%	$0.00	0.0%	0.0%	18,737	0.0%	$0.00	0.0%	0.0%
$0 $5,000	16,632	0.3%	$13,571.43	0.0%	0.0%	107,053	5.2%	$972,779.59	0.2%	0.3%	123,684	1.5%	$986,351.02	0.2%	0.3%
$5,000 $15,000	78,526	4.8%	$6,736,626.53	1.2%	0.9%	166,842	27.3%	$27,882,173.47	5.1%	1.8%	245,368	10.6%	$34,618,800.00	6.3%	1.5%
$15,000 $25,000	102,526	12.2%	$33,804,234.69	6.2%	1.7%	83,895	28.0%	$45,429,657.14	8.3%	2.9%	186,421	16.2%	$79,233,891.84	14.5%	2.2%
$25,000 $35,000	110,000	19.5%	$70,886,929.59	12.9%	2.2%	34,737	17.4%	$31,911,936.73	5.8%	3.3%	144,737	18.9%	$102,798,866.33	18.8%	2.5%
$35,000 $50,000	121,789	29.8%	$122,719,284.69	22.4%	2.5%	13,789	9.7%	$17,911,536.73	3.3%	3.3%	135,579	24.6%	$140,630,821.43	25.7%	2.6%
$50,000 $100,000	64,211	24.0%	$108,511,577.55	19.8%	2.8%	5,895	6.5%	$14,533,455.10	2.7%	4.0%	70,105	19.5%	$123,045,032.65	22.5%	2.9%
$100,000 Over	8,316	9.5%	$53,398,809.18	9.7%	3.4%	1,368	6.0%	$13,165,155.10	2.4%	3.9%	9,684	8.6%	$66,563,964.29	12.1%	3.5%
Total	514,526	100.00%	$396,071,033.67	72.29%	2.4%	419,789	100.00%	$151,606,693.88	27.71%	2.7%	934,316	100.00%	$547,677,727.55	100.00%	2.5%

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1986
Resident Taxpayers

TAX REFORM ACT OF 1986

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate	No. Of Returns	Percent Of KAGI	Liability	Percent Of Total	Effective Rate
No K.A.G.I.	11,263	0.0%	$0.00	0.0%	0.0%	5,789	0.0%	$0.00	0.0%	0.0%	17,053	0.0%	$0.00	0.0%	0.0%
$0 $5,000	14,947	0.2%	$13,775.51	0.0%	0.0%	104,105	4.5%	$1,028,391.84	0.2%	0.3%	119,053	1.4%	$1,042,167.35	0.2%	0.3%
$5,000 $15,000	73,895	4.3%	$7,022,422.45	1.1%	0.5%	166,421	26.2%	$29,143,271.43	4.4%	1.8%	240,316	9.8%	$36,165,693.88	5.4%	1.5%
$15,000 $25,000	98,842	11.0%	$34,407,344.90	5.1%	1.7%	85,158	27.2%	$48,896,659.18	7.3%	3.0%	184,000	15.1%	$83,304,004.08	12.5%	2.3%
$25,000 $35,000	106,947	17.6%	$74,450,878.57	11.1%	2.3%	34,421	16.4%	$33,332,905.10	5.0%	3.3%	141,368	17.3%	$107,783,783.67	16.1%	2.6%
$35,000 $50,000	118,842	27.2%	$134,421,269.39	20.1%	2.7%	15,263	10.3%	$21,724,685.71	3.3%	3.5%	134,105	22.9%	$155,145,955.10	[illegible]	2.8%
$50,000 $100,000	76,842	27.8%	$155,716,780.61	23.3%	3.1%	6,947	7.3%	$18,734,531.63	2.8%	4.2%	55,789	22.6%	$174,301,312.24	[illegible]	3.2%
$100,000 Over	10,947	11.9%	$85,146,763.27	12.7%	3.9%	1,684	7.7%	$24,203,318.37	3.5%	5.2%	12,632	10.9%	$123,350,281.63	[illegible]	4.2%
Total	514,526	100.0%	$491,179,234.69	73.5%	2.7%	419,789	100.00%	$177,113,763.27	26.5%	2.9%	934,316	100.00%	$668,292,997.96	100.00%	[illegible]
Fiscal Impact:			$55,108,201.02					$25,307,069.39					$120,415,272.41		
All Taxpayers:			$139,181,369.39			Non-Resident:		$18,765,098.96							

Appendix B

Areas of Non-Conformity Between State and Federal Itemized Deductions After the Tax Reform Act of 1986

1. **Medical and Dental Expenses** - Kansas allows all unreimbursed expenses in excess of $50 while the federal deduction allows only unreimbursed expenses in excess of 7.5% of AGI.

2. **Social Security and Related Employment Taxes** - Allowed as a deduction at the state level, but not at federal.

3. **Solar Energy Amortization** - More generous provisions allowed at the state level. To our knowledge has never been used.

4. **Contributions to Segregated Schools** - No longer necessary as federal law now interpreted to coincide with state law.

5. **Casualty Losses** - Non-conformed since 1983. State allows all unreimbursed losses in excess of $100 per occurrence. Federal is limited to losses in excess of 10% of AGI.

6. **Charitable contributions** - Our rate for mileage is 7 cents per mile which was the federal rate in 1977. Current federal rate is 12 cents. Also, TRA imposed additional limits on travel which can be included as charitable.

7. **State and Local Gas Taxes** - Still allowed as state itemized deduction. Repealed at the federal level in 1979.

8. **Political Contributions** - State allows deduction of $100/200. At the federal level, it was converted to a credit in 1979 and with TRA, the credit will be repealed.

9. **Work of Art Contribution** - Special excess deduction allowed at the state level. Never been utilized.

10. **State and Local Sales Taxes** - Federal deduction repealed in TRA. If continued at the state level, we should maintain deduction tables for all states to accommodate part-year residents which would involve considerable research time to keep current. Also, local option considerations make the non-conformity more cumbersome.

11. **Non-mortgage interest** - TRA phases out the deduction for non-mortgage interest from 1987 - 1991 with exceptions of home equity loans for educational and medical purposes. State law would still allow full deduction.

12. **Moving Expenses** - TRA makes moving expenses a miscellaneous itemized deduction not subject to the 2% of AGI floor. It is currently an allowable adjustment to gross income. At the state level, therefore, taxpayers would lose the adjustment to income but not have the itemized deduction available to them.

13. **Employee Business Expenses** - Those currently taken as an adjustment to income on the front of the 1040 are converted to a miscellaneous itemized deduction subject to the 2% of AGI floor. These would be lost to Kansas taxpayers at the state level.

14. **Other Miscellaneous Deductions** - Are allowed only to the extent they exceed 2% of AGI. Would be allowed fully at the state level. Taxpayers would be required to both delete some from the federal total and add back greater amounts of others.

Clothing for job