Approved Feb. 19, 1988
Date

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION.

The meeting was called to order by Senator Fred A. Kerr at
Chairperson

11:00 a.m.
4:30 a.m./p.m. on February 17, 1988 in room 519-S of the Capitol.

All members were present except:

Committee staff present:

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

Conferees appearing before the committee:

Richard Ryan, Director of Research Dept.
Michael O'Keefe, Director of Budget
Shelby Smith, Slawson Co., Inc.
Secretary Harley Duncan, Dept. of Revenue

SENATE BILL 580

Chairman Kerr called the meeting to order and announced the agenda would be continued hearings on S.B. 580.

Richard Ryan, passed out a sheet titled "State General Fund" that explained "estimates" of what could happen to the Kansas General Fund in the next five years based on S.B. 580. In answering questions, Mr. Ryan acknowledged that his tables show if the annual growth rate continued at even 4%, and S.B. 580 were passed, the state would have to average less spending than has been experienced in any year since 1966 except in the "recission" year. (Att. 1 &2)

Michael O'Keefe testified. (Att. 3) He explained that he was present to discuss the need for adequate State General Fund balances and the problems of decreasing State General Fund revenues. Some of the topics he discussed were: cash flow needs, receipts to the general fund, expenditures, budget stabilization, effect of fluctuations in the economy and adequate balances. (See Att. 3 for explanations)

Shelby Smith testified. He urged the committee to "not" lose sight of the goal of tax simplification. He suggested an amendment to S.B. 490 on p. 10 which would automatically conform Kansas itemized deductions to federal itemized deductions.

Senator Allen made a motion to adopt the minutes of the February 16 meeting. Senator Mulich seconded. Motion carried.

Chairman Kerr stated that the meeting would reconvene at 4:00.

The Committee reconvened at 4:30 p.m. in Room 519-S.
Secretary Harley Dunan testified. (Att. 4) He stated that the Administration is opposed to S.B. 580. The two main reasons for this oppositon is:

1. Allowing a deduction for federal taxes paid adds unnecessary complexity to the individual income tax, and coupled with the rates proposed in the bill, leads to unacceptable changes in the income tax burden.

2. Enacting long term tax reductions of the magnitude in S.B. 580 threatens fiscal integrity of the State.

Secretary Duncan stated that there were four issues he wished to address:

1. Tax policy of allowing a deduction for federal taxes paid.
2. The actual results of the tax structure proposed in S.B. 580.
3. The corporation income tax "windfall".
4. Certain long term fiscal issues presented by the bill.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON ASSESSMENT & TAXATION,
room 519-S, Statehouse, at 11:00 a.m. & 4:00 a.m./p.m. on February 17, 1988

Tax Policy
Sec. Duncan stated that S.B. 580 changes the Governor's proposal by reinstating the deduction for federal taxes paid, apparently based on a concern about "double taxation" or including income in the tax base which is required to pay other taxes. The Governor considered this issue, but felt the arguments for repealing the deduction including simplicity, competitiveness and equity were more persuasive.

Fiscal Results of S.B. 580

Sec. Duncan stated that some of the major effects of the bill are:

1. In 1988 the bill increases the liability of taxpayers with an AGI of $35,000 and above by a total of $29 million.
2. Married taxpayers with $50 - 100,000 income experience a tax increase each year except 1992. Taxpayers with excess of $100,000 income have an increase in 1988, but the five year net reduction is $32 million. Significant tax relief is directed to taxpayers with an AGI of less than $35,000.
3. Percent of tax burden borne by single taxpayers decreases from 26.4% in 1988 under current law to 24.5% by 1992 under the bill. Tax burden borne by taxpayers with AGI of $35 - 100,000 increases from 49.1% in 1988 under current law to 54.7% in 1992. It rises to 55.1% in 1988 under current law to 54.7% in 1992. It rises to 55.1% in 1988 under S.B. 580.
4. Proportion of burden for taxpayers with AGI of less than $35,000 decreases from 33.1% under current law to 27.1% in 1992. Taxpayers with over $100,000 income increases from 17.7% under current law to 18.2% in 1992.

Sec. Duncan stated that the only way to break this general pattern would be to treat married and single rates separately or decrease the proposed standard deductions and/or personal exemptions.

Corporation Income Tax Windfall

Sec. Duncan stated that it seemed premature to predict that Kansas will receive considerably greater corporation income tax receipts than the amount agreed to by the concensus estimating group. He stated that he felt the Committee has heard nothing conclusive about the magnitude of the "corporate windfall" that would provide a basis for enacting permanent tax reductions of the contents of S.B. 580.

Long Term Fiscal Effects

Sec. Duncan stated that if FY 1989 spending is increased to $1,991 billion which is the amount recommended by the Governor, and growth is at the 4.1% or 4.2% annual rate and the cost of S.B. 580 is calculated to reflect both the individual and corporate changes in the bill, there would be serious repercussions. The analysis would move from suggesting that the State General Fund could support the tax reductions contained in the bill to suggesting that the reductions cannot be supported even with spending restraint. The budget would be out of balance in each year by a cumulative total of $99 - $121 million. In answering questions, he said the calculations show a $159 - $181 shortfall if the machinery and equipment sales tax exemption is adopted. (Att. 5 is also from the Dept. of Revenue)

Chairman Kerr went through the list, (Att. 6) with the committee outlining the similarities and changes regarding S.B. 490 and S.B. 580. There was informal committee discussion.

Meeting adjourned at 6:00 p.m.

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2/17/88	KAREN McCLAIN	TOPEKA	Ks. Assoc. of REALTORS
"	BERNARD METZ	"	KCCI
"	BUD GRANT	"	"
	Christy Young	"	Topeka Chamber
	[illegible]	Emporia	ESU
	Buck McCame	HOISINGTON	B.L.E.
	RON CALBERT	NEWTON	U.T.U.
	JANET STUBBS	Topeka	HBAK
	Jerry Coonrod	"	KG&E
	Tom Taylor	Topeka	KPL Gas Service
	Tom Whitaker	Topeka	Ks Motor Carriers Assn
	Frances Kastner	Topeka	Ks Food Dealers Assn
	Frank Stucky	Sublette	Farmer
	Ella Lee J Stucky	Sublette Ks	
	Mary E. Turkington	Topeka	Kansas Motor Carriers Assn
	TREVA POTTER	TOPEKA	PEOPLES NAT. GAS
	Bu Bor[illegible]	"	Revenue
	Jack Smith	"	"
	Ruth Wilkin	"	AAUP
	Barbara Snyder	"	McGill & Assoc.
	Bick McKee	"	K.L.A.
	Rebecca Rice	"	Amoco
	ED SCHAUB	"	SW BELL MOBILE SYSTEMS
	Jamie Schwartz	"	United Telecom
	Bernie Koch	Wichita	Wichita Chamber
	SHELBY SMITH	"	Dawson
	Richard Funk	Topeka	KASB
	[illegible]	Topeka	KSCPA
	Jan Vaal	Topeka	KSCPA

ASSESSMENT AND TAXATION

OBSERVERS
(PLEASE PRINT)

DATE	NAME	ADDRESS	REPRESENTING
2-18-88	Paul & Delores Wasson	319 W. MORSE B S K	
2-18-88	Richard and Virginia Johnson	170 Cornell Bonner Springs, Ks	

STATE GENERAL FUND

In Millions

	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993
Beginning Balance	$146.2	$146.2	$146.2	$146.2	$146.2
Receipts					
Consensus Est.	2,019.4	2,019.4	2,019.4	2,019.4	2,019.4
Sales/Use Tax. Ex.	(7.3)	(16.0)	(16.0)	(16.0)	(16.0)
Ind. Inc. Tax	(45.0) 46.2	(~~50.0~~) 53.2	(~~82.0~~) 85.2	(~~91.0~~) 102.0	(~~110.0~~) 112.9
Corp. Income Tax					
Loss Carrybacks	3.7[a]	11.3	--	--	--
Apportionment	(0.8)[a]	(1.0)	(1.0)	(1.0)	(1.0)
Rate Reductions	--	--	(10.5)	(14.0)	(21.5)
Total, FY 89 Basis	1,970.0	1,963.7	1,909.9	1,897.4	1,870.9
Total, Current $ (5% Annual Growth Rate)	1,970.0	2,061.9	2,105.7	2,196.5	2,274.1
Expenditures	1,970.0 3.8%[b]	2,061.9 4.7%	2,105.7 2.1%	2,196.5 4.3%	2,274.1 3.5%
Ending Balance	146.2	146.2	146.2	146.2	146.2
Percent of Expenditures	7.4%	7.1%	6.9%	6.7%	6.4%

a) Not shown in Governor's budget for FY 1989.

b) Over Governor's budget for FY 1988. Expenditure is $19.4 million less than Governor's adjusted recommendation which calls for a 4.9 percent increase.

If 6% Annual Growth	2,081.5	2,146.0	2,259.8	2,362.0
Expend.	2,081.5 5.7%	2,146.0 3.1%	2,259.8 5.3%	2,362.0 4.5%
If 4% Annual Growth	2,042.2	2,065.7	2,134.3	2,188.7
Expend.	2,042.2 3.7%	2,065.7 1.2%	2,134.3 3.3%	2,188.7 2.5%
If 3% Annual Growth	2,022.6	2,026.2	2,073.3	2,105.7
Expend.	2,022.6 2.7%	2,026.2 0.2%	2,073.3 2.3%	2,105.7 1.6%

Kansas Legislative Research Department
February 17, 1988

88-51/RWR

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Att. 1

STATE GENERAL FUND -- RECEIPTS, EXPENDITURES, AND BALANCES*

In Millions

Fiscal Year	Receipts		Expenditures		Ending Balance**			
	Amount	Annual % Increase	Amount	Annual % Increase	Amount	% of Next Year's Receipts	% of Next Year's Expend.	% of Current Year Exp.
1966	$250.8[a]	--	$ 222.4	--	$ 80.4	31.6%	33.6%	36.1%
1967	254.1a	1.3%	239.4	7.6%	95.2	37.4	36.8	39.8
1968	254.8	0.3	258.7	8.1	91.4	32.4	32.7	35.3
1969	282.1	10.7	279.1	7.9	94.6	31.4	27.5	33.9
1970	301.1	6.7	343.6	23.1	52.4	15.7	14.8	15.2
1971	333.6	10.8	354.9	3.3	31.5	8.4	8.6	8.9
1972	375.8	12.6	366.3	3.2	41.2	9.4	10.7	11.2
1973	436.2	16.0	386.7	5.6	90.9	16.6	18.5	23.5
1974	547.1	25.4	490.5	26.8	147.9	23.6	24.7	30.1
1975	627.6	14.7	598.3	22.0	179.0	25.5	25.5	29.9
1976	701.2	11.7	701.6	17.3	179.2	23.1	21.9	25.5
1977	776.5	10.7	816.5	16.4	140.4	16.4	16.7	17.2
1978	854.6	10.1	840.9	3.0	154.9	15.4	16.0	18.4
1979	1,006.8	17.8	966.7	15.0	195.9	17.8	17.6	20.3
1980	1,097.8	9.0	1,112.0	15.0	183.3	14.9	14.6	16.5
1981	1,226.5	11.7	1,259.0	13.2	152.1	11.9	11.4	12.1
1982	1,273.0	3.8	1,333.6	5.9	92.4	6.8	6.6	6.9
1983	1,363.6[b]	7.1	1,406.0	5.4	51.1	3.3	3.4	3.6
1984	1,546.9[bd]	13.4	1,503.4	6.9	95.6	5.8	5.8	6.4
1985	1,658.5[cd]	7.2	1,634.5	8.7	120.4	7.3	6.9	7.4
1986	1,641.4	(1.0)	1,743.0	6.6	19.7	1.1	1.1	1.1
1987	1,778.5[e]	8.4	1,726.6[g]	(0.9)	73.3	3.7	3.9	4.2
Est. 1988[h]	1,970.1[f]	10.8	1,897.3	9.9	146.1	7.3	7.3	7.7
Est. 1989[h]	1,990.8[f]	1.1	1,990.6	4.9	146.3	--	--	7.4

* Effective in FY 1966, the former Retail Sales Tax Fund was abolished and combined with the General Fund.

** Each balance through FY 1987 was the actual balance as reported by the Division of Accounts and Reports, except for minor adjustments in FYs 1973 and 1974 due to miscoding of insurance premium and domestic insurance companies privilege taxes, and reflects adjustment of expenditures for excess of prior years' encumbrances over actual expenditures chargeable against encumbrances. Thus, the balances shown above are not the same as would be obtained by adding the ending balance of a prior year to receipts in the following year and subtracting expenditures made in said following year.

a) Receipts in both 1966 and 1967 included nonrecurring revenue; approximately $25 million of such revenue in 1966 resulted from institution of the income tax withholding and declaration system.

b) Receipts in FYs 1983 and 1984 include accelerated receipts from income tax withholding and sales and use taxes as required by 1983 legislation.

c) Includes $22.9 million from acceleration of insurance premium tax payments.

d) Includes revenue from temporary limitation on deductibility of federal income tax on state individual income tax returns.

e) Includes revenue from sales and use tax rate increase enacted in 1986.

f) Includes estimated $135 million from the individual income tax due to federal tax reform.

g) The 1987 Legislature lapsed $60.1 million and shifted $24.9 million from FY 1987 to FY 1988.

h) Governor's recommendations to 1988 Legislature.

Kansas Legislative Research Department
January 19, 1988

88-20/RWR

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Att. 2

STATE OF KANSAS
DEPARTMENT OF ADMINISTRATION
MIKE HAYDEN, Governor
MICHAEL F. O'KEEFE, Director of the Budget
Room 152-E, Capitol Building
(913) 296-2436

MEMORANDUM

TO: Senate Committee on Assessment and Taxation

FROM: Michael F. O'Keefe, Director of the Budget

DATE: February 17, 1988

SUBJECT: Tax Reform Income

I appear before you today to discuss the need for adequate State General Fund balances and the implications of decreasing State General Fund revenues.

State General Fund balances have been discussed a great deal in Kansas over the past five years. I hope to explain the issue and our recommendations concerning "adequate" State General Fund balances. I will address two aspects of the balances issue: (1) cash flow needs and (2) budget stabilization needs.

Cash Flow Needs

In the ideal situation where daily receipts exactly match daily expenditures, the state would be able to maintain a zero balance at all times. This situation never exists. A number of actions have been taken in recent years by Governors and the Legislature to

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Att. 3

<u>reduce</u> the minimum balance needed to maintain a positive cash flow. The dramatic short-fall in revenue during FY 1983 prompted the Legislature to change the sales and use taxes and individual income tax withholding remittance dates. These changes, in addition to securing more revenue for the state in FY 1983, permanently altered the flow of <u>receipts</u> to the State General Fund.

Coupled with a low beginning balance, the altered receipt pattern let to cash flow problems during the early months of FY 1984. In response, the Governor recommended, and the Legislature enacted, several changes to statutes to alter the State General Fund <u>expenditure</u> pattern. Those actions: (1) authority for the Division of the Budget to delay payment of general school district aid from the 20th day of the month to the end of the month; (2) increased the number of School District Income Tax Rebate payments from three per year to seven per year, thereby reducing the size of each payment; (3) increased the number of Transportation Aid payments to school districts from two per year to four per year; (4) refinanced the annual $10,000,000 transfer from the State General Fund to the KPERS Fund to finance the incorporation of the old School Retirement Fund into the KPERS Fund.

These changes to the expenditure flow had the effect of reducing the size of the minimum beginning balance needed to maintain a positive cash flow for FY 1985 from approximately $115 million (approximately 7.0 percent of SGF expenditures) to approximately $75 million (less than 4.5 percent of SGF expenditures).

The minimum beginning balance to avoid borrowing in FY 1987 would have been approximately $110 million (approximately 6.4 percent of expenditures). The actual beginning balance was less than $20 million. Actions recommended by the Governor and enacted by the Legislature and the State Board of Education reduced the FY 1988 beginning balance needed to avoid borrowing to approximately $95 million (5.5 percent of expenditures). Beginning balances were only $73 million and there was a great deal of speculation that a certificate of indebtedness for approximately $30 million would have been needed during FY 1988. A certificate was avoided in early FY 1988 through cooperation with the Board of Regents, which encouraged Regents institutions to minimize State General Fund expenditures in the fall by using all other available resources and because actual receipts exceeded estimated receipts through the low balance point in November and December.

Cash Flow

Given the current tax structure and the pattern of expenditures, State General Fund expenditures exceed State General Fund receipts during the months of October and November. For this reason, the low point for unencumbered cash balances normally occurs between the 20th of November and the 20th of December. As a general rule, if sufficient beginning balances to cover the difference between total expenditures from July 1 to December 20 and total receipts over the same time period were to be maintained, the probability that certificates would be needed is greatly reduced. It is not eliminated, however, because the state receives and expends funds on a daily basis. It would still be possible to encounter days where cash flow would be negative.

I point out to you at this point in my testimony that a number of actions have been taken in the past five years to alter revenue and expenditures to "keep the ship afloat." These were what you may have heard referred to as the "rabbits that were pulled from the hat." The hat is now empty.

Receipts

In general, receipts to the general fund cluster around four dates: (1) some withholding taxes are due on the 19th; (2) severance taxes are due on the 20th; (3) withholding and sales and use taxes are due on the 25th; and (4) several small tax sources become due or are normally paid at the end of the month.

During certain months, the 1st and the 15th days are also important for receipts: (1) quarterly interest payments to the general fund from state inactive accounts are due on the 1st of August, November, February, and May; (2) estimated income tax installments are due on the 15th of April, June, September and January, except for corporations whose fourth installment is due December 15; and (3) insurance premium taxes are due the 15th of December and June.

Expenditures

In many respects, the flow of expenditures is similar during each month: (1) large expenditures occur during the first week of each month as a result of charging payroll to the state's accounting system and making state payments to individuals and institutions for social services; (2) General School Aid checks are written on the 18th so that auditing can occur prior to distribution on the 20th; (3) the general fund portion of the Regents payroll is encumbered on approximately the 21st; (4) Transportation Aid checks are prepared for distribution to school districts on the 25th; and (5) checks are written for the distribution of the School District Income Tax Rebate on the 28th.

It is important to note that dates for large expenditures tend to be set by statute while those for receipts are established by due dates and vary by delivery of mail and taxpayer behavior. Large single day expenditures, in excess of $20 million, occur on more than one day in each month, except July and August; receipts tend to be more evenly spread. It is extremely rare for receipts to exceed $20 million on any given day during a fiscal year. While minor adjustments could be made to the expenditure flow, there is little of significance that could be done without substantially increasing the budgeting risk of recipient agencies. The benefit to the state of further smoothing the flow of tax receipts must be weighed against the cost of forcing taxpayers to file returns more frequently. There is probably little of significance left to capture except that (1) severance tax collections could be accelerated by one month, and (2) insurance premium taxes could be collected quarterly. Increasing beginning balances appear to be the best alternative for putting the state in a position to avoid the use of certificates of indebtedness.

Budget Stabilization

Balances of approximately five percent of expenditures are generally sufficient to cover the peaks and valleys in the expenditure revenue cycle. They are not adequate, however, for "rainy days," or budget stabilization. In FY 1983 and FY 1987, the situation reached proportions that a rescission of authorized expenditures was necessary. Rescission of authorized expenditures may be unwise for two reasons:

1. Service Levels. Mid-year rescissions tend to destabilize state government. In both FY 1983 and FY 1987, the number of traditional services provided by government was reduced from former levels, expenditures were postponed, and statutory requirements regarding payments changed. Unless those changes are made permanent, or the economy reverses itself dramatically, tax increases are likely to follow in order to finance the growth of state government. It was the passage of the severance tax for FY 1983 that allowed the rebalancing of governmental goods and services in FY 1984 and beyond. The increase in the sales tax was passed by the 1986 Legislature to fund certain goods and services deemed essential for economic development by the state.

The rescission in FY 1987 was not followed by a tax increase <u>per se</u>. However, $143 million additional revenues, available as a result of federal tax reform, were used for ending balances for FY 1988. FY 1989 budget allocations allow for no growth, real or inflationary, from the FY 1988 base in order to prevent committing that tax windfall to finance state government. State government would have needed to undergo either significant reductions in expenditures for goods and services or have been provided with a tax increase had the tax windfall not been available.

2. <u>Stability</u>. Many would argue that a solution to the problem is a long term reduction in the goods and services provided by government. That is, a rescission should be followed by non-restoration of the base and even further cuts if necessary. It could be argued, however, that economic vitality of the state partially rests upon a stable environment of publicly provided goods and services. That is, long term commitments to public education, adequate and clean water, a healthy environment with adequate protection of wildlife and provision for parks, public safety, and other areas are vital for attracting new industry to Kansas and keeping Kansas industry as well as its citizens in Kansas. A track record of keeping those commitments is important for the economic vitality of the state. This does not mean to say that there could not be adjustments to the level of goods and services provided. Indeed, those directions would likely to in both directions and would be deemed pertinent and reasonable in times of economic downturns. Radical upward and downward shifts, however, do not provide a stable environment.

Effect of Fluctuations in the Economy

It appears, then, sufficient funds also need to be available to cover the swings in the Kansas economy. The extent of these swings can be approximated by looking at the differences between original consensus estimates, revised estimates, and actual receipts. Table 1 shows the original estimate for each budget year beginning with FY 1975. The average difference between the original estimate, adjusted for legislation, and actual receipts during those years was 4.9 percent. That percentage drops to 4.0 if FY 1983 is excluded as an outlier. It would have taken a General Fund balance of $300 million at the end of FY 1982 in order to have eliminated the need for the rescission in FY 1983. It would have taken balances in excess of $200 million in FY 1986 in order to have avoided the rescission in FY 1987.

These balances may seem unusually large by recent standards in Kansas. Downturns in the Kansas economy, however, can eliminate even healthy balances in a matter of months. For example, when the 1982 Legislature adjourned, FY 1983 ending balances were projected to be $103.4 million. In November, the Consensus Revenue Estimating Group reduced the estimate of State General Fund receipts by more than $150 million which eliminated the estimated ending balances. As a result the Governor invoked his allotment authority to reduce State General Fund expenditures by almost $50 million. The Legislature quickly ratified those adjustments and made additional reductions. In addition, several excise tax rates were increased and individual withholding, as well as sales and use tax collections, were accelerated in order to ensure sufficient funding would be available to finance authorized expenditures. This experience demonstrated clearly that seemingly large State General Fund balances can disappear very rapidly during an economic downturn.

Adequate Balances

The Governor recommended in FY 1987 ending balance of $146.4 million, or 7.4 percent of his recommended expenditure. His budget recommendation include his tax reform proposal. I would make two points concerning his recommended balances:

1. Ten pertinent is desirable. Our lowest balance percentage between 1975 and 1980 was 17.2 percent, with the rabbits still in the hat. The average ending balance for those six years was over 20 percent. The Governor's recommendation allows for tax reform and meets a number of major state needs, such as property tax relief, funding for the Margin of Excellence, funding for primary and secondary education, providing for economically disadvantaged Kansas, and public safety.

2. The recommendation allows for error. Since the Consensus Revenue Estimating Group was organized, the average error for the original estimate of receipts, adjusted for legislation, and actual receipts occurring approximately 18 months later has been 4.9 percent (Table 1). The Consensus Group estimated for FY 1989 revenues at approximately

$2.019 billion. If we apply the average error, actual receipts could be expected to be approximately $99 million above or below that estimate. Excluding FY 1982, the worst year in terms of error, this same statistic falls to 4.0 percent. If we use the same consensus estimate, actual receipts could be approximately $81 million above or below the estimate. A comfortable ending FY 1989 balance, then, would be approximately $199 million, approximately 10 percent of expenditures, to provide for cash flow and an <u>average</u> error of estimate.

The Governor recommends a State General Fund ending balance that sends a clear message to companies seeking to invest in Kansas that we are on a path to restoring adequate balances to the State General Fund to guard against both the necessity of tax increases resulting from economic downturn and interruption or cut back in government services resulting from rescissions. He hopes to reverse the trend of five certificates of indebtedness, two budget rescissions, two major tax increases, and a number of sin tax increases since 1983.

It would appear that additional tax expenditures above the level recommended by the Governor in his tax reform proposal must either jeopardize balances or cause decreased expenditures. I would discuss some major expenditure areas in the Governor's budget recommendations.

1. Education. Approximately 61 percent of State General Fund expenditures recommended for FY 1989 are for education and

KANSAS DEPARTMENT OF REVENUE
Office of the Secretary
Robert B. Docking State Office Building
Topeka, Kansas 66612-1588

MEMORANDUM

TO: The Honorable Fred A. Kerr, Chairman
Senate Committee on Assessment and Taxation

FROM: Harley T. Duncan
Secretary of Revenue

RE: SB 580

DATE: February 17, 1988

Thank you for the opportunity to appear before you on SB 580 which enacts significant changes and reforms in the Kansas individual and corporation income tax. Despite its many similarities to the Governor's reform proposals (SB 490), the Administration cannot support enactment of SB 580. Our opposition is based on two grounds:

(a) allowing a deduction for federal taxes paid adds unnecessary complexity to the individual income tax and, coupled with the rates proposed in the bill, leads to unacceptable changes in the income tax burden; and

(b) enacting long-term tax reductions of the magnitude envisioned in SB 580 threatens the fiscal integrity of the State.

I would like to address four issues: (1) the tax policy of allowing a deduction for federal taxes paid; (2) the actual results of the tax structure proposed in SB 580; (3) the corporation income tax "windfall"; and (4) certain long term fiscal issues presented by the bill. Mr. Michael O'Keefe, Director of the Budget, will also address the impact of the bill on the financing of state government.

TAX POLICY

SB 580 changes the Governor's proposal by reinstating the deduction for federal taxes paid, apparently based on a concern about "double taxation" or including income in the tax base which is required to pay other taxes. The Governor considered this issue, but felt that the arguments for repealing the deduction were more convincing. Those include:

- The deduction for federal taxes paid is a direct trade-off for lower marginal tax rates which were seen as extremely desirable by the Governor and his Task Force on Tax Reform. With repeal, top marginal rates can be reduced to the 5.5 -6.5 percent range (with a tax reduction of $20 million) compared to rates that must be **at least 9.0 percent** with the

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deduction if the projected tax reduction is to be kept at roughly $20 million or even increased to as much $40 million.

- As interstate tax competition increases and lower federal tax rates increase the "cost" of state income taxes, a growing number of states are recognizing the desirability of lower marginal rates over maintenance of the deduction. In 1987 alone, four states repealed the deduction for federal taxes paid -- Colorado, Delaware, Minnesota and Utah. This leaves only eight of the forty income tax states with a full deduction for federal taxes paid.*

- Further, fifteen states acted in 1987 to reduce state income tax rates. After the tax changes of 1987 are phased-in fully, only six states will have a nominal tax rate equal to or greater than Kansas' 9.0 percent.*

- Repealing the deduction adds significant progressivity to the income tax base. This allows tax rates to be reduced sharply without sacrificing the progressivity of the tax.

- Repealing the deduction simplifies the income tax and is the key to implementing a "short" tax form which 500,000 - 600,000 taxpayers could use. Maintaining the deduction prevents widespread use of the short form because of the proration necessary for taxpayers whose Kansas AGI is less than federal AGI. The tax deduction cannot, therefore, be worked into pre-computed tax tables.

- The logical extension of the principle that income which is not available for discretionary spending should not be included in the tax base would be to impose a tax most heavily on savings and investment. The desirable approach is to define the tax base broadly to include all money income and then through personal exemptions, deductions and graduated rates to distribute the tax burden as one sees most fit according to the "ability to pay" principle.

- No evidence has been presented that repealing the deduction and offsetting the broader tax base with reduced rates as proposed in SB 490 introduces large disparities into the distribution of the tax burden or the treatment of taxpayers in similar economic circumstances.

- As discussed further below, reinstating the federal tax deduction but changing no features of SB 490 other than tax rates makes it extremely difficult to devise a set of tax rates which will reduce tax burdens across the income groups in a fashion which leaves the current distribution of tax liability relatively undisturbed. This results because the other changes in the tax base have the following effects: (a) taxable income of married taxpayers increases at a greater rate than for single filers; (b) the increased standard deductions and personal exemptions provide the greatest tax benefits to lower income households; and (c) conforming to federal itemized deductions, but not repealing the federal tax deduction, increases the taxable income of middle income taxpayers proportionately more than it does upper income taxpayers. The usual result is that a greater proportion of the tax burden is shifted to married taxpayers, particularly those with an AGI from $35,000 to $100,000. Single taxpayers, low income taxpayers and upper income taxpayers (over $100,000 AGI) commonly see significant tax reductions compared to current law.

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* Steven D. Gold, "The Budding Revolution in State Income Taxes," Legislative Finance Paper #61, National Conference of State Legislatures, Denver, CO, December 1987.

FISCAL RESULTS OF SENATE BILL 580

Attachments A-E (pages 7-16) present the fiscal impact of SB 580 **as introduced** by income group and filing status. Summaries are presented for each of tax years 1988-1992. The results presented are static estimates in that they assume no growth in income over this period and the only adjustment made from year-to-year is the rate or other state law changes contained in the bill. For each year, the tables show, by income bracket, the number of taxpayers, the percentage change in liability from current law caused by the change, the total change in liability for all taxpayers in the bracket (in millions of dollars), the average dollar change per return, and the effective tax rate (liability divided by AGI). These data are presented for married resident taxpayers, single resident taxpayers and all resident taxpayers.

I recognize the sponsor of SB 580 intends to propose changes to the rate structure contained in the bill in an effort to overcome some unintended consequences of the original proposal. I want, however, to review some of the specific effects of the bill as introduced because it is the only bill the Committee has before it and, I believe, the results are symptomatic of the results of any effort which changes only the federal tax deduction and the tax rate brackets from the Governor's proposal. Some of the notable effects of the bill are:

- In 1988, the bill increases the liability of taxpayers with an AGI of $35,000 and above by a total of $29 million.

- Married taxpayers with $50,000-$100,000 AGI experience a tax increase in each year except 1992. The relief provided this group in 1992 is $2 million less than provided by the Governor's plan despite the fact that the total reduction in 1992 is over $100 million compared to $20 million. Cumulatively, the liability for this group increases by over $40 million.

- Taxpayers with an AGI in excess of $100,000 experience an increase in 1988, but the cumulative effect over five years is a net reduction of $32 million, averaging 10 percent in the last two years.

- Significant tax relief (from 15-50 percent) is directed to taxpayers with an AGI of less than $35,000.

- The proportion of the tax burden borne by single taxpayers decreases from 26.4 percent in 1988 under current law to 24.5 percent by 1992 under the bill, with the largest reduction occurring in 1988.

- The proportion of the tax burden borne by taxpayers with an AGI of $35,000 - $100,000 increases from 49.1 percent in 1988 under current law to 54.7 percent in 1992. It rises to 55.1 percent in 1988 under the bill.

- The proportion of the burden borne by taxpayers with an AGI of less than $35,000 decreases from 33.1 percent under current law in 1988 to 27.1 percent in 1992.

- The proportion of the burden borne by taxpayers with an AGI in excess of $100,000 increases from 17.7 percent under current law in 1988 to 18.2 percent in 1992. It would stand at 19.9 percent in 1988 under the bill, however.

Again, I do not intend to imply that all of these effects are intended. They are, however, the general result of restructuring the Governor's proposal in the manner outlined here. The only way to break this general pattern would be to treat married and single rates separately or decrease the proposed standard deductions and/or personal exemptions. Absent changes such as this, one should expect to see an increase in the proportion of the tax liability paid by married taxpayers generally and married taxpayers with an AGI of $35,000 -$100,000 particularly.

CORPORATION INCOME TAX WINDFALL

Part of the rationale underlying SB 580 is that Kansas will receive considerably greater corporation income tax receipts than projected in FY 1988, 1989 and future years because of the effects of the Tax Reform Act of 1986. At best, it seems premature to draw such conclusions and to base permanent tax reductions on such a premise. Several comments and observations seem in order.

- **Current Position.** It is incorrect to say that the Department of Revenue has ignored the effects of federal tax reform on the corporate income tax. Our position (and, I think, that of the Consensus Revenue Estimating Group) is that we expect federal reform to have a "modest positive" influence on our corporate receipts. However, it is not possible to estimate with any reasonable accuracy the magnitude of that increase because of the unavailability of data and other resources. As a result, no specific amount is included in the estimate for the impact of federal reform. It should be considered, however, that the group recognized the federal impact and adjusted its estimates to some degree therefore.

- **History of Receipts.** As shown in Attachment F (page 17), corporation income tax receipts have declined from a high of $162 million in FY 1981 to a low of $104.6 million in FY 1987. This is due in large part to changes in federal tax policy which narrowed the corporation income tax base. The 1987 figure is the lowest since 1977. As a proportion of State General Fund receipts, corporate income taxes have declined from 13.7 percent in FY 1977 to under 6.0 percent in FY 1987. Estimates for FY 1988 and 1989 are $113 million each. Through January 1988, actual corporate receipts were 11.6 percent ($6.6 million) **below** the FY 1988 estimate and only 2.4 percent above FY 1987 actual receipts. Thus, any influence of federal changes on tax year 1987 payments to date is not evident, and significant improvement will be necessary to reach the current FY 1988 estimate. For all State General Fund sources, actual receipts exceeded the estimates by $2 million or 0.2 percent.

- **Other State Estimates.** Attachment G (pages 18-19) presents the results of a telephone survey of 12 other states on their estimates of the impact of federal corporation tax reform on state receipts. The twelve states break down as follows:

No separate estimate	Arkansas, Nebraska, Oklahoma and Wisconsin
Less than 5% increase	Ohio, Oregon
5 - 10% increase (1988)	Illinois, Maryland, Minnesota
Over 10% increase	Colorado*, Iowa, Missouri

*An estimated 50 percent of the Colorado increase is attributable to repeal of a counterpart state investment tax credit. Absent this, the projected increase would be 8-9 percent.

It is fair to say that most states expressed a good deal of uncertainty or uneasiness with their estimates. They were, for the most part, driven from federal figures, and states were experiencing difficulty in gauging the timing of any expected receipts.

Reasons for Uncertainty. Those federal reform provisions which affect state tax bases are primarily what have been termed "accounting provisions" which relate to the capitalization of certain costs, changes in inventory accounting, and changes in rules which formerly allowed the deferral of certain income. The effect of these changes will vary from state-to-state and industry-to-industry. Most of the discussion has centered on manufacturing and retailers. Yet, these two industry groups constitute only 30 percent of our corporate tax base. Fully one-third is comprised of transportation companies (trucks, railroads and pipelines) and public utility companies (gas, electric and telephone companies) while wholesale trade constitutes another 15 percent of the base. There has been little discussion of how, if at all, these types of firms will be affected.

Further, we must be concerned with what are changes in timing of receipts (which would increase receipts on a one-time basis) versus permanent tax base expansions. More recent data from the U.S. Treasury Department (July 1987) than that presented to the Committee yesterday shows that the federal revenue effects of the uniform capitalization rules are "front-end loaded" to a degree, decreasing from $9.1 billion in 1987 to $6.5 billion in 1991. A similar pattern is seen in the limits on the use of installment method of recognizing receipts, estimated at $2.1 billion in 1987 but averaging $1.4 billion annually thereafter. Of most importance is the need to recognize that limits on the use of completed contract method of accounting are simply changes in the timing of receipts and not permanent expansions in the base. That is, they require income to be recognized evenly over a several year period instead of at the end of a contract. This is most important in the defense contracting industry.

In short, the Committee has heard nothing conclusive about the magnitude of the "corporate windfall" that would provide a basis for enacting permanent tax reductions of the sort contained in SB 580. Given the nature of the federal changes affecting the state tax base and the innumerable nuances of the corporation income tax, it seems improbable to me that such conclusive statements could be made at this time. It is simply premature to enact tax changes on the information at hand.

LONG TERM FISCAL EFFECTS

While the Budget Director will focus his remarks on the long-term fiscal issues presented by SB 580, I wish to make a few comments and do so with reference to the material presented earlier by Dr. Daicoff. Attachment H (page 20) reproduces the information presented by Dr. Daicoff with only two changes:

(1) FY 1989 spending is increased to $1.991 billion which is the amount recommended by the Governor and then is increased at the 4.1 or 4.2 percent annual rate; and

(2) The cost of SB 580 is adjusted to reflect both the individual and corporate changes in the bill, rather than just the individual income tax provisions.

With just these two changes, the analysis moves from one suggesting that the State General Fund could possibly support the tax reductions contained in the bill, if spending were restrained to the 4.1-4.2 percent level, to one suggesting that the reductions cannot be supported even with such spending restraint. Receipts in excess of the assumed expenditure levels are $309-330 million over the five-year period, but the tax reductions contained in the bill (assuming no growth in income) are $430 million over the same period. The budget would be out-of balance in each year by a cumulative total of $90-120 million.

Moreover, the projected costs of SB 580 **do not reflect exempting manufacturing machinery and equipment from the sales tax.** If this reduction is considered, the total tax reductions increase by $55.5 million and the five-year cumulative shortfall is increased to $140-175 million.

Finally, Attachment I (page 21) presents the history of State General Fund expenditures over the past 23 fiscal years. In only four years has the increase in State General Fund expenditures been less than the 4.2 percent assumption used in the above analysis.

CONCLUSION

In short, SB 580 contains two essential flaws:

(1) Reinstatement of the deduction for federal taxes paid is undesirable in that it adds unnecessary complexity to the tax structure and detracts significantly from the ability to reduce marginal tax rates. Further, the bill appreciably alters the current distribution of the tax burden in a manner which is not desirable.

(2) The bill contains tax reductions which significantly disrupt the integrity of the State's fiscal position and jeopardize its ability to meet legitimate public demands.

Thank you for the opportunity to testify on this matter. I would be glad to attempt to answer any questions.

1988

SIMULATION 7207 TAX YEAR ~~1988~~

Governor's Proposal
Plus The Deductibility of Federal Income Taxes

Current Kansas Tax Rates
$60 Credit of Elderly and Blind

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7207

Liability Dollars are in Millions

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Increase	Married: Dollar Change In Liability	Married: Dollar Change Per Return	Married: Effective Rate	Single: No. Of Returns	Single: Percent Increase	Single: Dollar Change In Liability	Single: Dollar Change Per Return	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Increase	Total Residents: Dollar Change In Liability	Total Residents: Dollar Change Per Return	Total Residents: Effective Rate
No K.A.G.I.	9,684	0.0%	($0.14)	($14.35)	0.0%	4,526	0.0%	($0.08)	($18.14)	0.0%	14,211	0.0%	($0.22)	$0.00	0.0%
$0 $5	16,947	-2305.0%	($0.58)	($34.22)	-1.2%	110,421	-151.8%	($1.83)	($16.62)	-0.2%	127,368	-195.7%	($2.41)	($18.96)	-0.3%
$5 $15	72,105	-105.0%	($8.29)	($114.99)	-0.1%	168,316	-52.9%	($16.88)	($100.31)	0.9%	240,421	-63.2%	($25.17)	($104.71)	0.6%
$15 $25	93,368	-47.6%	($15.87)	($169.92)	0.9%	95,474	-16.8%	($9.46)	($99.11)	2.5%	188,842	-28.2%	($25.33)	($134.12)	1.7%
$25 $35	97,474	-21.5%	($14.66)	($150.42)	1.8%	37,789	-0.9%	($0.33)	($8.67)	3.4%	135,263	-14.1%	($14.99)	($110.82)	2.3%
$35 $50	112,211	0.7%	$0.88	$7.88	2.7%	19,684	4.7%	$1.39	$70.38	3.9%	131,895	1.5%	$2.27	$17.21	2.9%
$50 $100	93,263	10.3%	$18.22	$195.40	3.3%	7,368	5.3%	$1.07	$145.50	4.5%	100,632	9.8%	$19.30	$191.75	3.4%
$100 Over	13,895	6.1%	$7.07	$508.99	5.2%	1,158	4.2%	$0.50	$430.09	5.5%	15,053	6.0%	$7.57	$502.92	5.3%
Total	508,947	-2.5%	($13.36)	($26.24)	2.8%	444,737	-13.5%	($25.64)	($57.64)	2.6%	953,684	-5.4%	($38.99)	($40.89)	2.7%
Fiscal Impact:			($13.36)					($25.64)					($38.99)		
All Taxpayers:			($44.80)			Non-Resident:		($5.81)							

Attachment 7
-7-

Simulation 7207 Senate Bill 580
Tax Year 1988 Rate Tables

Single Taxable Income			Tax Rate	Excess Over
$0	$2,000		2.00%	$0
$2,000	$3,000	$40	3.50%	$2,000
$3,000	$5,000	$75	4.00%	$3,000
$5,000	$7,000	$155	5.00%	$5,000
$7,000	$10,000	$255	6.50%	$7,000
$10,000	$20,000	$450	7.50%	$10,000
$20,000	$25,000	$1,200	8.50%	$20,000
$25,000	Over	$1,625	9.00%	$25,000

Married Taxable Income			Tax Rate	Excess Over
$0	$4,000		2.00%	$0
$4,000	$6,000	$80	3.50%	$4,000
$6,000	$10,000	$150	4.00%	$6,000
$10,000	$14,000	$310	5.00%	$10,000
$14,000	$20,000	$510	6.50%	$14,000
$20,000	$40,000	$900	7.50%	$20,000
$40,000	$50,000	$2,400	8.50%	$40,000
$50,000	OVER	$3,250	9.00%	$50,000

SIMULATION 7221 TAX YEAR ~~1988~~ 1989

Governor's Proposal
Plus The Deductibility of Federal Income Taxes

New Kansas Tax Rates

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7221

Liability Dollars are in Millions

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,526	0.0%	$0.00	$0.00	0.0%	14,211	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.50)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	72,105	-81.1%	($6.40)	($88.79)	0.2%	168,316	-46.8%	($14.93)	($88.71)	1.0%	240,421	-53.6%	($21.33)	($88.73)	0.8%
$15 $25	93,368	-44.6%	($14.87)	($159.30)	1.0%	95,474	-15.5%	($8.72)	($91.30)	2.6%	188,842	-26.3%	($23.59)	($124.92)	1.8%
$25 $35	97,474	-20.8%	($14.16)	($145.23)	1.8%	37,789	-0.3%	($0.11)	($2.97)	3.4%	135,263	-13.4%	($14.27)	($105.49)	2.3%
$35 $50	112,211	1.0%	$1.28	$11.37	2.7%	19,684	2.7%	$0.80	$40.62	3.8%	131,895	1.3%	$2.08	$15.73	2.9%
$50 $100	93,263	9.5%	$16.83	$180.41	3.3%	7,368	-0.3%	($0.05)	($7.03)	4.3%	100,632	8.5%	$16.77	$166.68	3.3%
$100 Over	13,895	-1.9%	($2.22)	($159.80)	4.8%	1,158	-5.8%	($0.68)	($588.27)	5.0%	15,053	-2.3%	($2.90)	($192.76)	4.9%
Total	508,947	-3.7%	($19.58)	($38.46)	2.7%	444,737	-13.1%	($24.85)	($55.88)	2.6%	953,684	-6.2%	($44.43)	($46.59)	2.7%
Fiscal Impact:			($19.58)					($24.85)					($44.43)		
All Taxpayers:			($50.50)			Non-Resident:		($6.07)							

Attachment B
-9-

Simulation 7221 Senate Bill 580
Tax Year 1989 Rate Tables

Single Taxable Income			Tax Rate	Excess Over
$0	$2,000		2.00%	$0
$2,000	$3,000	$40	3.50%	$2,000
$3,000	$5,000	$75	4.00%	$3,000
$5,000	$7,000	$155	5.00%	$5,000
$7,000	$10,000	$255	6.50%	$7,000
$10,000	$20,000	$450	7.50%	$10,000
$20,000	Over	$1,200	8.00%	$20,000

Married Taxable Income			Tax Rate	Excess Over
$0	$4,000		2.00%	$0
$4,000	$6,000	$80	3.50%	$4,000
$6,000	$10,000	$150	4.00%	$6,000
$10,000	$14,000	$310	5.00%	$10,000
$14,000	$20,000	$510	6.50%	$14,000
$20,000	$40,000	$900	7.50%	$20,000
$40,000	OVER	$2,400	8.00%	$40,000

SIMULATION 7222 TAX YEAR ~~1988~~ 1990

Governor's Proposal
Plus The Deductibility of Federal Income Taxes
Exclusion of Taxable Social Security Benefits
New Kansas Tax Rates

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7222

Liability Dollars are in Millions

	Married					Single					Total Residents				
K.A.G.I. Bracket	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,632	0.0%	$0.00	$0.00	0.0%	14,316	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.50)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	72,421	-81.0%	($6.39)	($88.28)	0.2%	168,632	-48.1%	($15.35)	($91.02)	1.0%	241,053	-54.6%	($21.74)	($90.20)	0.8%
$15 $25	93,263	-46.7%	($15.57)	($166.97)	0.9%	95,579	-17.5%	($9.89)	($103.51)	2.5%	188,842	-28.4%	($25.47)	($134.85)	1.7%
$25 $35	98,842	-20.8%	($14.17)	($143.35)	1.8%	38,316	-3.5%	($1.34)	($35.01)	3.3%	137,158	-14.6%	($15.51)	($113.08)	2.2%
$35 $50	111,789	-2.7%	($3.39)	($30.33)	2.6%	19,053	-4.1%	($1.21)	($63.27)	3.7%	130,842	-3.0%	($4.60)	($35.13)	2.8%
$50 $100	92,421	2.8%	$4.94	$53.41	3.1%	7,053	-9.7%	($1.97)	($279.07)	4.1%	99,474	1.5%	$2.97	$29.84	3.2%
$100 Over	13,579	-6.0%	($6.89)	($507.26)	4.7%	1,053	-11.9%	($1.41)	($1,337.50)	4.9%	14,632	-6.5%	($8.30)	($566.99)	4.8%
Total	508,947	-7.9%	($41.50)	($81.54)	2.6%	444,737	-17.1%	($32.32)	($72.68)	2.5%	953,684	-10.3%	($73.82)	($77.41)	2.6%
Fiscal Impact:			($41.50)					($32.32)					($73.82)		
All Taxpayers:			($82.30)			Non-Resident:		($8.47)							

Attachment 1

-11-

Simulation 7222 Senate Bill 580
Tax Year 1990 Rate Tables

Single Taxable Income			Tax Rate	Excess Over
$0	$2,000		2.00%	$0
$2,000	$3,000	$40	3.00%	$2,000
$3,000	$5,000	$70	4.00%	$3,000
$5,000	$7,000	$150	5.00%	$5,000
$7,000	$10,000	$250	6.50%	$7,000
$10,000	$20,000	$445	7.00%	$10,000
$20,000	Over	$1,145	8.00%	$20,000

Married Taxable Income			Tax Rate	Excess Over
$0	$4,000		2.00%	$0
$4,000	$6,000	$80	3.00%	$4,000
$6,000	$10,000	$140	4.00%	$6,000
$10,000	$14,000	$300	5.00%	$10,000
$14,000	$20,000	$500	6.50%	$14,000
$20,000	$40,000	$890	7.00%	$20,000
$40,000	OVER	$2,290	8.00%	$40,000

SIMULATION 7223 TAX YEAR ~~1988~~ 1991

Governor's Proposal
Plus The Deductibility of Federal Income Taxes
Exclusion of Taxable Social Security Benefits
New Kansas Tax Rates

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7223

Liability Dollars are in Millions

K.A.G.I. Bracket	Married					Single					Total Residents				
	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate	No. Of Returns	Percent Increase	Dollar Change In Liability	Dollar Change Per Return	Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,632	0.0%	$0.00	$0.00	0.0%	14,316	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.50)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	72,421	-81.0%	($6.39)	($88.28)	0.2%	168,632	-48.1%	($15.35)	($91.02)	1.0%	241,053	-54.6%	($21.74)	($90.20)	0.8%
$15 $25	93,263	-46.7%	($15.57)	($166.97)	0.9%	95,579	-17.5%	($9.89)	($103.51)	2.5%	188,842	-28.4%	($25.47)	($134.85)	1.7%
$25 $35	98,842	-20.8%	($14.17)	($143.35)	1.8%	38,316	-3.8%	($1.43)	($37.29)	3.3%	137,158	-14.7%	($15.60)	($113.72)	2.2%
$35 $50	111,789	-2.7%	($3.39)	($30.33)	2.6%	19,053	-6.0%	($1.77)	($93.12)	3.6%	130,842	-3.3%	($5.16)	($39.47)	2.8%
$50 $100	92,421	2.0%	$3.58	$38.69	3.1%	7,053	-13.1%	($2.67)	($378.30)	3.9%	99,474	0.5%	$0.91	$9.13	3.1%
$100 Over	13,579	-10.3%	($11.83)	($871.33)	4.5%	1,053	-16.8%	($1.99)	($1,891.30)	4.6%	14,632	-10.9%	($13.82)	($944.71)	4.5%
Total	508,947	-9.1%	($47.80)	($93.93)	2.6%	444,737	-18.1%	($34.26)	($77.04)	2.4%	953,684	-11.5%	($82.07)	($86.05)	2.6%
Fiscal Impact:			($47.80)					($34.26)					($82.07)		
All Taxpayers:			($91.15)			Non-Resident:		($9.08)							

Attachment 13

Simulation 7223 Senate Bill 580
Tax Year 1991 Rate Tables

Single Taxable Income			Tax Rate	Excess Over
$0	$2,000		2.00%	$0
$2,000	$3,000	$40	3.00%	$2,000
$3,000	$5,000	$70	4.00%	$3,000
$5,000	$7,000	$150	5.00%	$5,000
$7,000	$10,000	$250	6.50%	$7,000
$10,000	$20,000	$445	7.00%	$10,000
$20,000	Over	$1,145	7.50%	$20,000

Married Taxable Income			Tax Rate	Excess Over
$0	$4,000		2.00%	$0
$4,000	$6,000	$80	3.00%	$4,000
$6,000	$10,000	$140	4.00%	$6,000
$10,000	$14,000	$300	5.00%	$10,000
$14,000	$20,000	$500	6.50%	$16,000
$20,000	$40,000	$890	7.00%	$24,000
$40,000	OVER	$2,290	7.50%	$40,000

SIMULATION 7224 TAX YEAR ~~1988~~ 1992

Governor's Proposal
Plus The Deductibility of Federal Income Taxes
Exclusion of Taxable Social Security Benefits
New Kansas Tax Rates

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7224

Liability Dollars are in Millions

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Increase	Married: Dollar Change In Liability	Married: Dollar Change Per Return	Married: Effective Rate	Single: No. Of Returns	Single: Percent Increase	Single: Dollar Change In Liability	Single: Dollar Change Per Return	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Increase	Total Residents: Dollar Change In Liability	Total Residents: Dollar Change Per Return	Total Residents: Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,632	0.0%	$0.00	$0.00	0.0%	14,316	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.50)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	72,421	-81.0%	($6.39)	($88.28)	0.2%	168,632	-49.3%	($15.74)	($93.32)	1.0%	241,053	-55.6%	($22.13)	($91.81)	0.7%
$15 $25	93,263	-47.2%	($15.73)	($168.66)	0.9%	95,579	-21.1%	($11.91)	($124.59)	2.4%	188,842	-30.8%	($27.64)	($146.35)	1.7%
$25 $35	98,842	-24.5%	($16.70)	($168.95)	1.7%	38,316	-6.2%	($2.37)	($61.88)	3.2%	137,158	-18.0%	($19.07)	($139.04)	2.1%
$35 $50	111,789	-6.9%	($8.67)	($77.56)	2.5%	19,053	-7.6%	($2.25)	($118.24)	3.6%	130,842	-7.0%	($10.92)	($83.49)	2.7%
$50 $100	92,421	-0.6%	($1.01)	($10.97)	3.0%	7,053	-14.0%	($2.84)	($403.31)	3.9%	99,474	-2.0%	($3.86)	($38.78)	3.0%
$100 Over	13,579	-11.0%	($12.60)	($928.27)	4.5%	1,053	-17.0%	($2.02)	($1,916.30)	4.6%	14,632	-11.5%	($14.62)	($999.35)	4.5%
Total	508,947	-11.6%	($61.14)	($120.12)	2.5%	444,737	-20.2%	($38.29)	($86.09)	2.4%	953,684	-13.9%	($99.42)	($104.25)	2.5%
Fiscal Impact:			($61.14)					($38.29)					($99.42)		
All Taxpayers:			($110.17)			Non-Resident:		($10.75)							

Attachment 1
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Simulation 7224 Senate Bill 580
Tax Year 1992 Rate Tables

Single Taxable Income			Tax Rate	Excess Over
$0	$2,000		2.00%	$0
$2,000	$3,000	$40	3.00%	$2,000
$3,000	$5,000	$70	4.00%	$3,000
$5,000	$7,000	$150	4.50%	$5,000
$7,000	$10,000	$240	6.00%	$7,000
$10,000	$20,000	$420	7.00%	$10,000
$20,000	Over	$1,120	7.50%	$20,000

Married Taxable Income			Tax Rate	Excess Over
$0	$4,000		2.00%	$0
$4,000	$6,000	$80	3.00%	$4,000
$6,000	$10,000	$140	4.00%	$6,000
$10,000	$14,000	$300	4.50%	$10,000
$14,000	$20,000	$480	6.00%	$16,000
$20,000	$40,000	$840	7.00%	$24,000
$40,000	OVER	$2,240	7.50%	$40,000

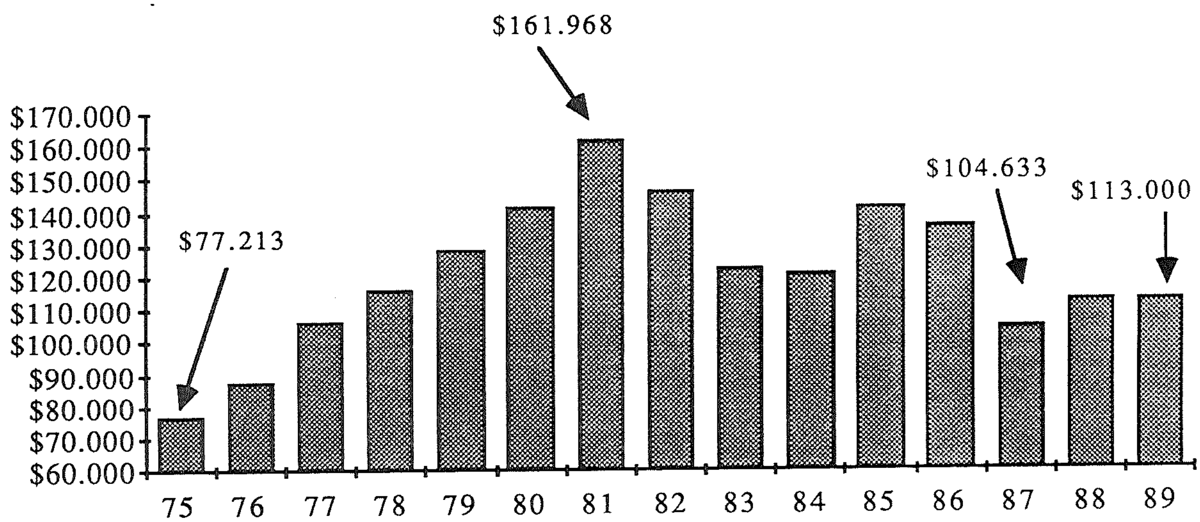
Attachment F -17

February 16, 1988

Kansas Department of Revenue
Corporate Income Tax

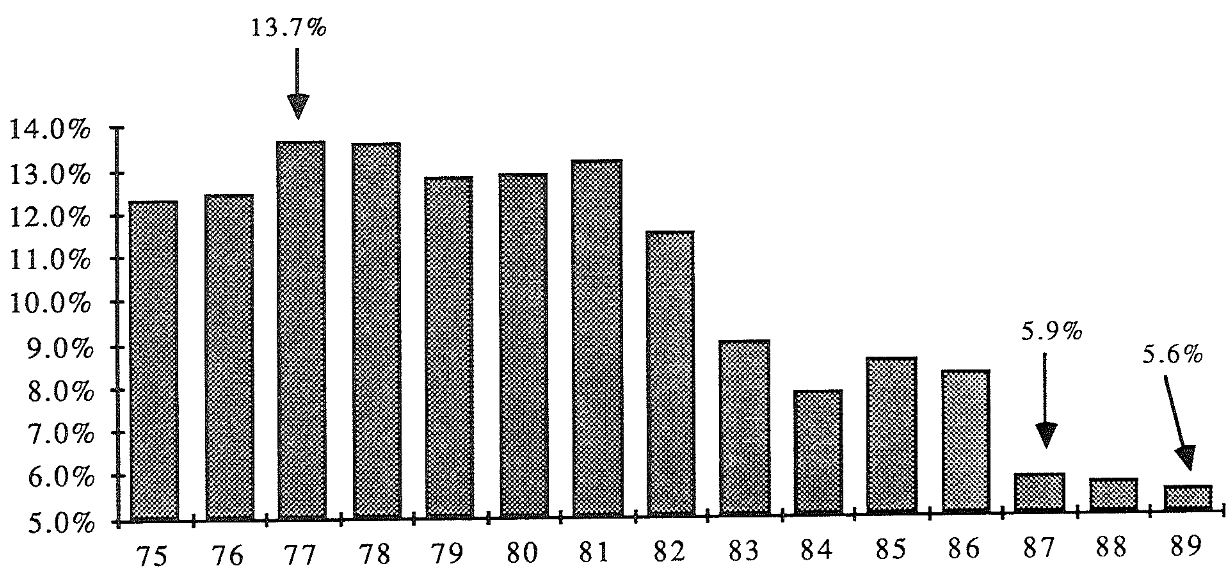
(Dollars in Millions)

Fiscal Years 1988 and 1989 are Consensus Estimates



Corporate Income Tax Revenue as a Percent of the State General Fund

Fiscal Years 1988 and 1989 are Consensus Estimates



Attachment
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2/16/88

Kansas Department of Revenue

States' Estimates of Corporate Windfall from Federal Tax Reform
(Dollars in Millions)
Telephone Survey of February 10-16, 1988

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Arkansas	No								

No windfall estimates. The state is now creating a detailed, corporate data base on computer, with which to make estimates.

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Colorado	Yes	1988	$28.0	$145.0		16.2%		Allocated fed	Investment
		1988	$32.0	$145.0		18.1%		estimates	Tax Credit

The 1988 windfall estimate is $28-$32 million. Total corporate estimated collections are up from $113 million in FY 1987 because of 7-1-1987 tax-rate increase. Estimates that half of windfall amount is from Investment Tax Credit repeal.

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Illinois	No	1988	$56.0	$614.0		8.4%		backed out of regular est.	

Windfall estimate done by Illinois Chamber of Commerce is $200 million (state & local). State windfall estimate of $56 million made at state level only. Regular estimate is based on before-tax corporate profit estimates; then windfall estimated as percent of that. Windfall is considered "fictitious." FY 1988 to date revenues verify lower ($56 million) windfall estimate, but it will not be returned until existence of windfall is a certainty. State estimates that it may take two years for tax reform changes to be made fully evident in Illinois.

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Iowa	Yes	1988	$17.5	$145.0		10.8%		Backed-out of	
		1988	$20.0	$145.0		12.1%		total windfall	

Prior to TY 1987, Iowa was non-conforming. At special session in October, 1987, Iowa became conforming for tax year 1987 only. Regular session now considering conformity as permanent.

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Maryland	No	1988	$20.0	$242.3		7.6%		Consultants	

Windfall was estimated by consultants on a CY basis: at $24 million for CY 1987 and $20 million for CY '88 and '89. Maryland converted to FY, with the "bulk" of the $24 million in FY 1988. Thus, the estimate is at $20 million. Windfall estimate is deemed to be "as good as can be done."

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Minnesota	Yes	1988	$27.4	$382.9		6.7%		Backed out of	
		1989	$48.5	$405.5		10.7%		MN tax reform	

Estimates based on law prior to 1987 changes, at old 12% rate. New law incorporates federal reforms. Additional collections from Minnesota tax reform are estimated at $46 million for FY 1988 and $68.4 million for FY 1989.

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Missouri	No	1988	$32.0	$224.0		12.5%		2% of federal	Accounting Provisions

FY 1988 to date collections show that windfall estimate could be on the low side, by about $8 million, making the total windfall at $40, but estimate will not be revised upward. Federal tax reform has stimulated Missouri to build a corporate file (i.e., enter corporate return information on computer file). Estimates that changed accounting provisions account for about 68% of windfall estimates.

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Kansas Department of Revenue

States' Estimates of Corporate Windfall from Federal Tax Reform
(Dollars in Millions)
Telephone Survey of February 10-16, 1988

State	New Laws or Rates	FY	Windfall	Regular Corporate without Windfall	Total (all) Taxes	Windfall Percent of Corporate	Corporate Percent of Total Taxes	How Windfall Estimated	Federal Influences
Nebraska	Yes								

Currently more concerned with the fiscal effect of Legislative Bill 775 than with corporate windfall. In L.B., to promote corporate investment in plant equipment and the hiring of new employees, credits are given for sales tax paid, number employees hired and property tax. Estimated that 25 corporations would file, but over 100 have filed to date.

Ohio	Yes	1988	$40.0	$866.2		4.4%		% fed increase	

Windfall estimated by using same % increases for state as was used at federal level. Windfall estimate is "shaky," and not being monitored. Lowered top corporate rate to 8.9% from 9.7%, Fy 1988; so estimate total revenues will remain about the same as before windfall.

Oklahoma	Yes	1987		$83.7	$2,534.0		3.3%		
		1988		$87.0	$2,700.0		3.2%		

No windfall estimates made. New laws raised other taxes' rates, as sales, ABC, motor fuel. Little reliance on corporate revenue.

Oregon	Yes	1988	$0.6	$140.2		0.4%		1% of federal	
		1989	$3.6	$133.3		2.6%		estimates	

Conformed to federal and decreased rate to 6.6% from 7.5% for Tax Year 1987. Estimates to be revised at end of February, 1988.

Wisconsin	Yes								

Prior to 1987, Wisconsin was non-conforming; so that windfall would be estimated to be break-even. Beginning with Tax Year 1987, Wisconsin is conforming, and saw federal tax reform as offering state the opportunity to conform.

Kansas Department of Revenue: Feb. 17, 1988

Attachment H

Fiscal Year	General Fund Receipts*	Percent Change	Dollar Change
1988	$1,963		
1989	$2,019	2.9%	$56.6
1990	$2,112	4.6%	$92.9
1991	$2,226	5.4%	$114.1
1992	$2,333	4.8%	$106.9
1993	$2,445	4.8%	$112.0

* Compound growth rate of 4.5% from 1988-1993.

Fiscal Year	General Fund Receipts	Expenditures Growth at 4.20%	Expenditures Growth at 4.10%	Difference Growth at 4.20%	Difference Growth at 4.10%
1988	$1,963	$1,897	$1,897		
1989	$2,019	$1,991*	$1,991*	$28	$28
1990	$2,112	$2,075	$2,073	$38	$40
1991	$2,226	$2,162	$2,158	$65	$69
1992	$2,333	$2,253	$2,246	$81	$87
1993	$2,445	$2,347	$2,338	$98	$107
Total				$309	$331

* As recommended in the "Governor's Budget Report".

Tax Year	Senate Bill 580*	Senate Bill 580 Adjusted Growth at KPI Rate	Senate Bill 580 Adjusted Growth at 1.5 KPI Rate
1988	$41	$41	$41
1989	$45	$48	$49
1990	$98	$105	$108
1991	$110	$117	$120
1992	$136	$144	$148
Total	$430	$455	$467

* Includes individual income and corporation income changes.
Enactment of the sales tax exemption on manufacturing machinery and equipment, House Bill 2626, would increase the total cost by $55.5 million.

February 16, 1988

Attachment I

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Kansas Department of Revenue

Percentage Increase in Expenditures
Dollars in Millions

Fiscal Year	Expenditures	Percent Increase
1966	$221.9	
1967	$239.3	7.8%
1968	$258.6	8.1%
1969	$278.3	7.6%
1970	$343.2	23.3%
1971	$354.8	3.4%
1972	$366.1	3.2%
1973	$386.4	5.5%
1974	$488.8	26.5%
1975	$597.9	22.3%
1976	$700.4	17.1%
1977	$815.7	16.5%
1978	$840.1	3.0%
1979	$965.4	14.9%
1980	$1,110.8	15.1%
1981	$1,258.7	13.3%
1982	$1,333.5	5.9%
1983	$1,405.9	5.4%
1984	$1,503.4	6.9%
1985	$1,634.5	8.7%
1986	$1,743.0	6.6%
1987	$1,726.5	-0.9%
1988	$1,897.3	9.9%
1989	$1,990.6	4.9%

S.B. 580 WITH PROPOSED NEW RATE BRACKETS

SIMULATION 7247 **TAX YEAR 1988**

Governor's Proposal
Plus The Deductibility of Federal Income Taxes
$60 Non-Refundable Credit to Elderly and Blind Taxpayers
New Kansas Tax Rates

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7247

Liability Dollars are in Millions

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Increase	Married: Dollar Change In Liability	Married: Dollar Change Per Return	Married: Effective Rate	Single: No. Of Returns	Single: Percent Increase	Single: Dollar Change In Liability	Single: Dollar Change Per Return	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Increase	Total Residents: Dollar Change In Liability	Total Residents: Dollar Change Per Return	Total Residents: Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,526	0.0%	$0.00	$0.00	0.0%	14,211	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.49)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	72,105	-73.5%	($5.80)	($80.49)	0.3%	168,316	-30.6%	($9.77)	($58.07)	1.4%	240,421	-39.1%	($15.58)	($64.79)	1.0%
$15 $25	93,368	-20.9%	($6.97)	($74.64)	1.4%	95,474	-14.1%	($7.92)	($82.98)	2.6%	188,842	-16.6%	($14.89)	($78.85)	2.0%
$25 $35	97,474	-5.7%	($3.87)	($39.74)	2.2%	37,789	-10.5%	($4.01)	($105.99)	3.1%	135,263	-7.4%	($7.88)	($58.25)	2.4%
$35 $50	112,211	1.6%	$2.03	$18.11	2.7%	19,684	-6.5%	($1.93)	($97.95)	3.5%	131,895	0.1%	$0.10	$0.79	2.8%
$50 $100	93,263	-0.8%	($1.43)	($15.35)	2.9%	7,368	-1.3%	($0.27)	($36.44)	4.2%	100,632	-0.9%	($1.70)	($16.90)	3.0%
$100 Over	13,895	1.2%	$1.37	$98.40	5.0%	1,158	2.4%	$0.29	$248.09	5.4%	15,053	1.3%	$1.65	$109.92	5.0%
Total	508,947	-2.8%	($14.70)	($28.89)	2.8%	444,737	-13.1%	($24.77)	($55.69)	2.6%	953,684	-5.5%	($39.47)	($41.39)	2.7%
Fiscal Impact:			($14.70)					($24.77)					($39.47)		
All Taxpayers:			($46.29)			Non-Resident:		($6.82)							

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Att. 5

Simulation 7247 Use Simulation 7207

Single Taxable Income			Tax Rate	Excess Over
$0	$3,000		4.00%	$0
$3,000	$7,000	$120	5.00%	$3,000
$7,000	$20,000	$320	5.75%	$7,000
$20,000	$25,000	$1,068	7.50%	$20,000
$25,000	Over	$1,443	9.00%	$25,000

Married Taxable Income			Tax Rate	Excess Over
$0	$6,000		4.00%	$0
$6,000	$14,000	$240	5.00%	$6,000
$14,000	$40,000	$640	5.75%	$14,000
$40,000	$50,000	$2,135	7.50%	$40,000
$50,000	Over	$2,885	9.00%	$50,000

Kansas Department of Revenue February 17, 19

Comparison of Hypothetical Taxpayers

Single, No Dependents

Kansas Adjusted Gross Income		Current Law 1987	Current Law 1988	Governor's Proposal	Senate Bill 580
$10,000	Standard	$232	$232	**$242**	$185
$20,000	Standard	$775	$776	**$722**	$653
	Itemized	$564	$559	**$663**	$599
$30,000	Standard	$1,344	$1,362	**$1,203**	$1,095
	Itemized	$1,031	$1,034	**$1,092**	$1,012
$40,000	Standard	$1,922	$1,995	**$1,823**	$1,673
	Itemized	$1,446	$1,463	**$1,570**	$1,449
$50,000	Itemized	$1,887	$1,954	**$2,080**	$1,992
$75,000	Itemized	$3,059	$3,200	**$3,426**	$3,357
$100,000	Itemized	$4,339	$4,576	**$4,725**	$4,650
$250,000	Itemized	$11,388	$12,771	$13,107	**$13,539**

Head of Household, One Dependent

Kansas Adjusted Gross Income		Current Law 1987	Current Law 1988	Governor's Proposal	Senate Bill 580
$10,000	Standard	$133	$141	**$82**	$58
$20,000	Standard	$649	$663	**$562**	$489
	Itemized	$439	$433	**$562**	$495
$30,000	Standard	$1,291	$1,314	**$1,042**	$978
	Itemized	$950	$942	**$998**	$944
$40,000	Standard	$1,919	$1,970	**$1,615**	$1,527
	Itemized	$1,406	$1,406	**$1,449**	$1,402
$50,000	Itemized	$1,894	$1,894	**$1,960**	$1,937
$75,000	Itemized	$3,095	$3,206	$3,305	**$3,368**
$100,000	Itemized	$4,438	$4,608	$4,604	**$4,687**
$250,000	Itemized	$11,500	$12,551	$12,986	**$13,323**

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Att. 5 (Cont.)

Kansas Department of Revenue

Comparison of Hypothetical Taxpayers

Married Filing Joint, No Dependents

Kansas Adjusted Gross Income		Current Law 1987	Current Law 1988	Governor's Proposal	Senate Bill 580
$10,000	Standard	$137	$141	**$46**	$37
$20,000	Standard	$483	$487	**$461**	$412
	Itemized	$353	$347	**$461**	$412
$30,000	Standard	$1,047	$1,053	**$876**	$866
	Itemized	$691	$683	**$863**	$861
$40,000	Standard	$1,641	$1,677	$1,291	**$1,345**
	Itemized	$1,171	$1,162	$1,204	**$1,267**
$50,000	Itemized	$1,512	$1,519	$1,546	**$1,632**
$75,000	Itemized	$2,472	$2,545	$2,077	**$2,671**
$100,000	Itemized	$3,554	$3,737	$3,846	**$3,993**
$250,000	Itemized	$10,968	$11,888	$11,146	**$12,477**

Married Filing Joint, Two Dependents

Kansas Adjusted Gross Income		Current Law 1987	Current Law 1988	Governor's Proposal	Senate Bill 580
$10,000	Standard	$78	$78	$0	$0
$20,000	Standard	$411	$416	**$299**	$246
	Itemized	$287	$283	**$299**	$246
$30,000	Standard	$939	$947	**$714**	$676
	Itemized	$598	$591	**$697**	$666
$40,000	Standard	$1,571	$1,584	$1,129	**$1,164**
	Itemized	$1,064	$1,055	$1,038	**$1,070**
$50,000	Itemized	$1,441	$1,450	$1,384	**$1,470**
$75,000	Itemized	$2,415	$2,467	$1,926	**$2,461**
$100,000	Itemized	$3,494	$3,673	$3,635	**$3,758**
$250,000	Itemized	$10,919	$11,806	$10,936	**$12,224**

Kansas Department of Revenue

Comparison of Hypothetical Taxpayers

Married Filing Joint, Both Over 65

Kansas Adjusted Gross Income		Current Law 1987	Current Law 1988	Governor's Proposal	Senate Bill 580
$10,000	Standard	$147	$147	$0	$0
$20,000	Standard	$501	$496	**$411**	$361
	Itemized	$501	$496	**$411**	$361
$30,000	Standard	$1,074	$1,066	**$826**	$808
	Itemized	$691	$683	**$826**	$810
$40,000	Standard	$1,692	$1,702	$1,241	**$1,295**
	Itemized	$1,171	$1,162	$1,204	**$1,267**
$50,000	Itemized	$1,512	$1,519	$1,546	**$1,632**
$75,000	Itemized	$2,472	$2,545	$2,077	**$2,671**
$100,000	Itemized	$3,554	$3,737	$3,846	**$3,993**
$250,000	Itemized	$10,968	$11,888	$11,146	**$12,477**

Table 1: Comparison of Consensus Revenue Estimating Experiences

Fiscal Year	Adjusted Original Estimate	First Leg Session	First Spring Revision	Revised Estimate (Spring)	November Consensus Revision	Second November Consensus	Second Leg Session	Second Spring Revision	Final Estimate	Actual Receipts	Receipts Adjusted for Leg
1975									614.9	627.6	627.6
1976	670.5	5.8		676.3	23.5	699.8			699.8	701.2	695.4
1977	750.4	9.8		760.2	3.4	763.6		(3.0)	760.6	776.5	766.7
1978	828.5	2.0		830.5	31.1	861.6	(0.4)		861.2	854.6	853.0
1979	943.5	1.8		945.3	36.8	982.1		37.3	1,019.4	1,006.8	1,005.0
1980	1,075.9	(56.6)	61.0	1,080.3	15.6	1,095.9			1,095.9	1,097.8	1,154.4
1981	1,198.5	(1.4)		1,197.1	29.3	1,226.4			1,226.4	1,226.5	1,227.9
1982	1,352.6	(0.4)		1,352.2	(17.8)	1,334.4	(0.9)	(13.5)	1,320.0	1,273.0	1,274.3
1983	1,487.6	3.1	(36.0)	1,454.7	(150.7)	1,304.0	108.5	(45.6)	1,366.9	1,363.6	1,252.0
1984	1,419.4	174.0	(40.6)	1,552.8	(17.1)	1,535.7	3.4		1,539.1	1,546.9	1,369.5
1985	1,672.8	2.3		1,675.1	(17.9)	1,657.2	22.6		1,679.8	1,658.5	1,633.6
1986	1,722.9	3.2		1,726.1	(55.1)	1,671.0	5.1	(9.5)	1,666.6	1,641.4	1,633.1
1987	1,733.7	169.6	(44.8)	1,858.5	(93.6)	1,764.9	(0.2)		1,764.7	1,778.5	1,609.1

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Att. 5 (cont.)

SIMULATION 7256 TAX YEAR 1988

Governor's Proposal
Additional Personal Exemption ($1,950)
For Head of Household Taxpayers

Kansas Department Of Revenue

Individual Income Tax In Tax Year 1988
Resident Taxpayers

SIMULATION 7256

Liability Dollars are in Millions

K.A.G.I. Bracket	Married: No. Of Returns	Married: Percent Increase	Married: Dollar Change In Liability	Married: Dollar Change Per Return	Married: Effective Rate	Single: No. Of Returns	Single: Percent Increase	Single: Dollar Change In Liability	Single: Dollar Change Per Return	Single: Effective Rate	Total Residents: No. Of Returns	Total Residents: Percent Increase	Total Residents: Dollar Change In Liability	Total Residents: Dollar Change Per Return	Total Residents: Effective Rate
No K.A.G.I.	9,684	0.0%	$0.00	$0.00	0.0%	4,526	0.0%	$0.00	$0.00	0.0%	14,211	0.0%	$0.00	$0.00	0.0%
$0 $5	16,947	-95.8%	($0.02)	($1.42)	0.0%	110,421	-95.9%	($1.16)	($10.49)	0.0%	127,368	-95.9%	($1.18)	($9.29)	0.0%
$5 $15	72,105	-55.7%	($4.40)	($61.00)	0.5%	168,316	-7.2%	($2.30)	($13.68)	1.8%	240,421	-16.8%	($6.70)	($27.87)	1.4%
$15 $25	93,368	-6.4%	($2.13)	($22.85)	1.7%	95,474	-4.3%	($2.40)	($25.13)	2.9%	188,842	-5.1%	($4.53)	($24.00)	2.3%
$25 $35	97,474	-1.8%	($1.22)	($12.53)	2.3%	37,789	-3.7%	($1.39)	($36.84)	3.3%	135,263	-2.5%	($2.61)	($19.32)	2.6%
$35 $50	112,211	-1.8%	($2.28)	($20.31)	2.6%	19,684	-1.1%	($0.32)	($16.29)	3.7%	131,895	-1.7%	($2.60)	($19.71)	2.8%
$50 $100	93,263	-1.8%	($3.11)	($33.33)	2.9%	7,368	2.8%	$0.57	$76.97	4.4%	100,632	-1.3%	($2.54)	($25.25)	3.0%
$100 Over	13,895	-0.2%	($0.25)	($18.12)	4.9%	1,158	0.1%	$0.01	$12.73	5.3%	15,053	-0.2%	($0.24)	($15.75)	5.0%
Total	508,947	-2.5%	($13.42)	($26.36)	2.8%	444,737	-3.7%	($6.99)	($15.72)	2.9%	953,684	-2.8%	($20.41)	($21.40)	2.8%
Fiscal Impact:			($13.42)					($6.99)					($20.41)		
All Taxpayers:			($25.82)			Non-Resident:		($5.42)							

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Att. 5 (cont.)

Comparing Individual Income Tax Reform Plans and Current Law

Principal tax year 1988 features of TESA, the Governor's recommendation, S.B. 580, and the current law include the following:

Tax Feature	Governor[1]	S.B. 580[1]	TESA[1]	Current Law
Social Security benefits	taxable	taxable[2]	exempt	taxable
Kansas GO bond interest	exempt	exempt	taxable	taxable
Federal income taxes paid	not deductible	deducted	deducted	deducted
Rates:				
number of brackets	2	8	7 joint, 6 single	8
bottom rate, single	4.80%	4.00%	3.25%	2.00%
bottom rate, joint	4.15%	4.00%	3.25%	2.00%
top rate, single	6.20%	9.00%[3]	8.00%	9.00%
top rate, joint	5.40%	9.00%[3]	8.00%	9.00%
Itemized deductions:				
federal conformity	current[4]	current[4]	current[4]	12/31/77
Social Security contr.	not deductible	not deductible	not deductible	deducted
Standard deductions:				
joint	$5,000	$5,000	$5,000	$2,100-2,800
single	3,000	3,000	3,000	1,700-2,400
head of household	4,400	4,400	4,400	1,700-2,400
married, separate	2,500	2,500	2,500	1,050-1,400
1989 and thereafter	not indexed	not indexed	indexed	same as above
Personal exemption:				
1988	$1,950	$1,950	$1,950[5]	$1,000
1989	2,000	2,000	2,000[5]	1,000
1990 and thereafter	not indexed	not indexed	indexed[5]	1,000
Elderly/Blind	increase standard deduction	increase standard deduction and $60 TY 1987 credit	increase standard deduction	none[6]
Fiscal Impact[7]	$(21.29) million	$(46.29) million	$5.53 million	---

1 TESA, as amended by House Committee of the Whole, Governor's recommendation as it appears in S.B. 490 and H.B. 2684, and S.B. 580, with proposed new rate brackets.

2 Social Security benefits would be exempt starting in tax year 1990.

3 The top rate would be lowered to 8.0 percent in TY 1990 and to 7.5 percent in TY 1992. The number of brackets would be reduced to 5 by TY 1992.

4 All three plans would eliminate most major areas of nonconformity.

5 Exemption amounts would be reduced by $100 for each $2,000 of KAGI in excess of $35,000 for joint filers and by $100 for each $2,000 of KAGI in excess of $25,000 for single filers.

6 Prior to 1987, extra personal exemptions were allowed through federal conformity.

7 Tax Year 1988 fiscal impacts based on Department of Revenue's latest simulation model.

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Att. 6

Corporation Income Tax Policy Comparisons

	Governor[1]	S.B. 580[1]	TESA[1]	Current Law
Elimination of net operating less carryback	Yes	Yes	No	No
Provides Income Apportionment Option	Yes	Yes	No	No
Reduce Corporate Base Rate	No	Yes	No	No

1 TESA, as amended by House Committee of the Whole, Governor's recommendation as it appears in S.B. 490 and H.B. 2684, and S.B. 580 with proposed new rate brackets.

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