Negative Testimony on SB 169
Flat Income Tax

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March 10, 2023

Background and Summary:

I have served as the chief academic adviser to the Governor's Tax Reform Council starting in 2019. The *Governor's Council on Tax Reform Final Report* discussed the recent history of taxation in Kansas, including the consequences of the Brownback Income tax cuts. This testimony draws upon these lessons.

This testimony is **Negative** on Senate Bill 169 because it eliminates the progressivity of Kansas tax system and will reduce revenues for the state general fund.

First, recent Kansas history illustrates the danger of extreme tax cuts like SB 169. The fiscal note on this bill is $568.5 per year by FY 2025. When combined with SB 33 ($440), the total tax cuts proposed are in excess of $1 billion by FY 2025.

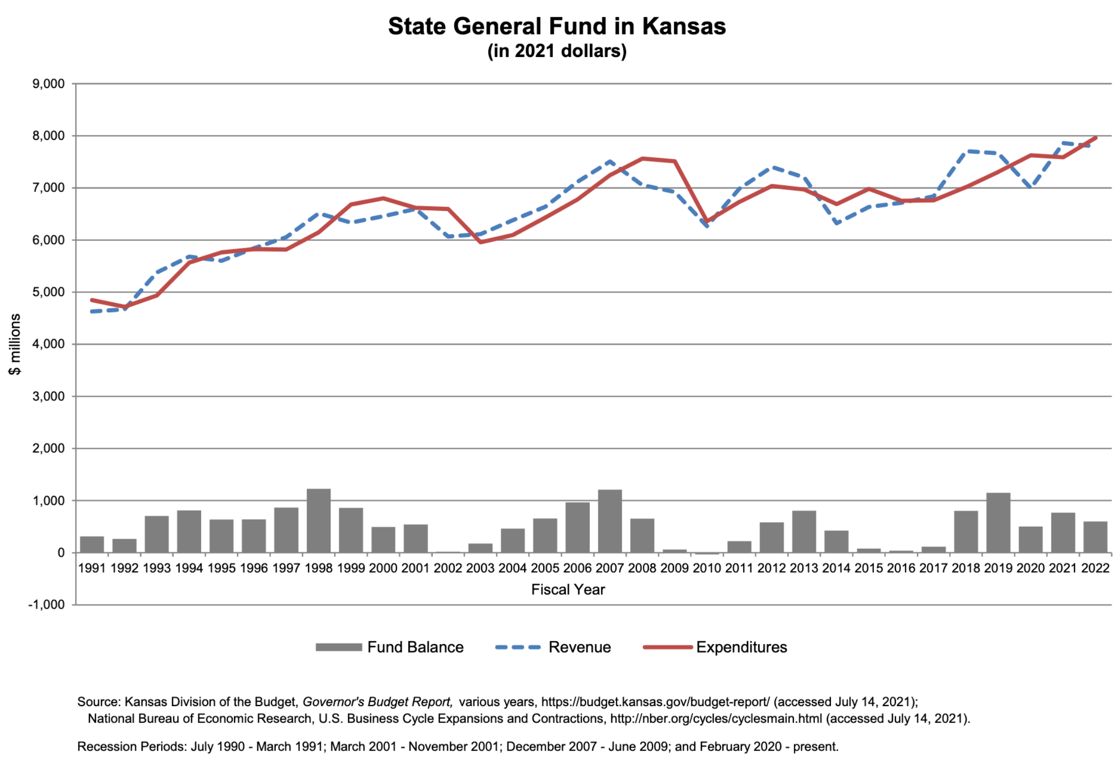
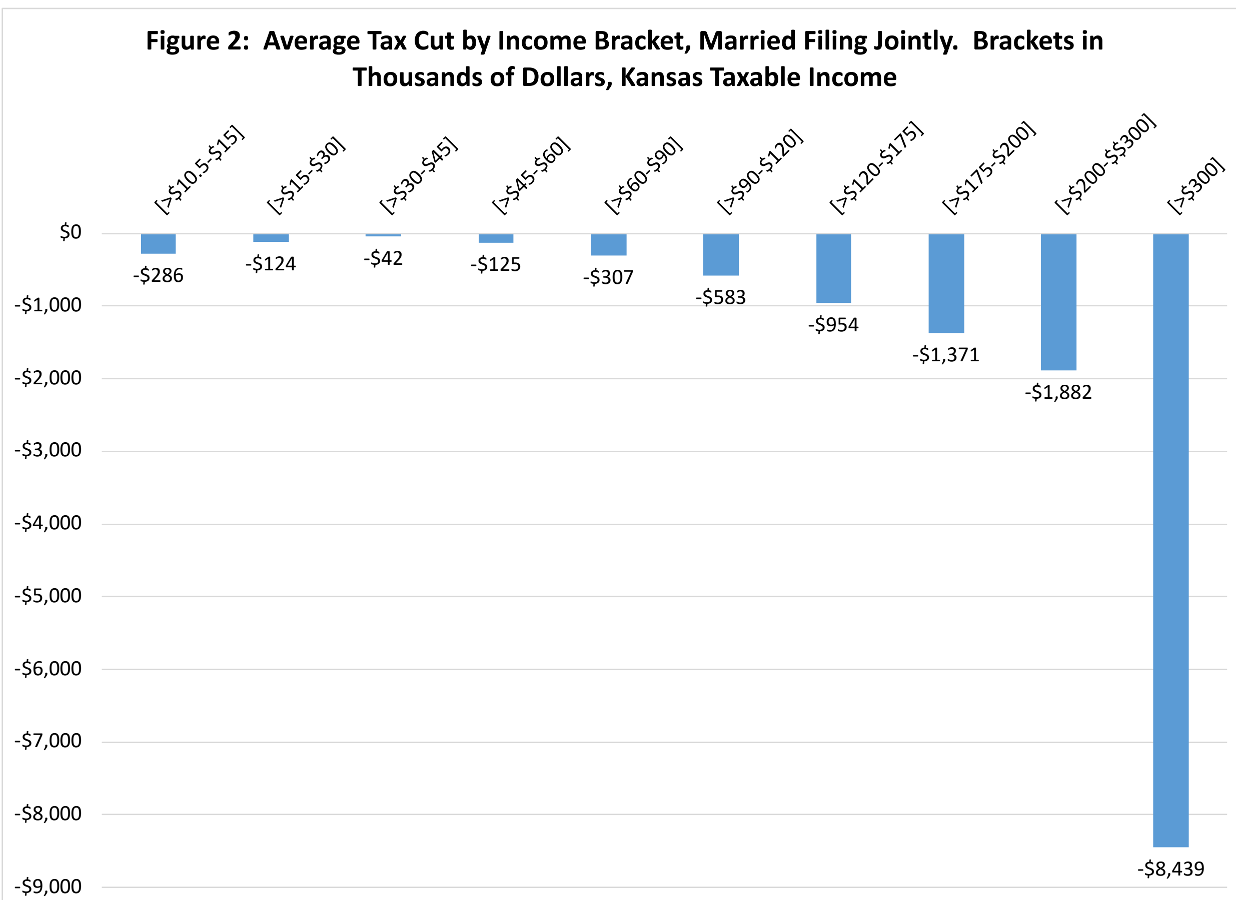


Figure 1: State General Fund Balances, Revenue and Expenditures. Source: The *Governor's Council on Tax Reform Final Report.*

Figure 1, reproduced from the *Governor's Council on Tax Reform Final Report* shows the precipitous decline in the State General Fund after 2014 due to the Brownback Tax Cuts. Beginning in 2014, expenditures outstripped revenues and by 2017, the Brownback tax cuts were largely reversed. Given the problems with the State General Fund, to balance the budget, the Governor and Legislature would "raid the bank of KDOT" by eliminating previously scheduled transfers from the SGF to support the state's transportation program. Kansas ranks fourth in the nation in terms of roads and highways. It is estimated that as much as $2.6 billion dollars was swept from the Kansas Department of Transportation (KDOT) budget to pay for the Brownback tax cuts.[1] It took four years for Governor Kelly to finally close the bank of KDOT.

Second, the flat tax benefits the very top earners in Kansas compared to those with average income or below. Figure 2 shows the average tax cut by taxable income bracket for married couples filing jointly. The top 5% of married couples filing jointly (with Kansas taxable income in excess of $300,000 per year) receive an average annual tax cut of $8,439. This makes up 51.1% of the total tax cut from SB 169. The bottom 50% of married couple households filing jointly receive only 10.9% of the total tax cut. Thus, the flat tax favors the richest of filers in the state.



[1] https://www.cjonline.com/story/news/politics/state/2019/01/18/gov-laura-kelly-offers-plan-to-gradually-downsize-bank-of-kdot/6255101007/

Third, there is no evidence that tax cuts like the flat tax or the Brownback tax cut lead to economic growth. Many economists have analyzed the economic impact of the Brownback tax cuts. DeBacker, Heim, Tramnath and Ross (2019) found no evidence that the Brownback tax cuts resulted in increased economic activity. Turner and Blagg (2018) examined whether the tax cuts resulted in increases in employment compared to states that did not enact tax cuts. They found that tax cuts did not result in any net increase in private-sector employment. Tax and budget policy analysts from groups as diverse as the Tax Foundation and the Center2 for Budget and Policy Priorities3 agreed that the "Tax Experiment" in Kansas was a failure in public policy. Furthermore, these tax cuts put Kansas' improved credit rating at risk, ultimately increasing debt service costs and costing Kansans more money.

Fourth, the Governor's Council on Tax Reform suggested the preservation of the three-legged stool of Kansas taxes, where the state should strive to balance revenues from the regressive sales tax, the moderately regressive property tax, and the progressive income tax. SB 169 effectively eliminates the progressivity of the income tax, resulting in a highly regressive tax system. Regressive taxes mean that households with lower incomes pay a disproportionately higher share of their income in taxes relative to households with higher incomes. The SB 169 is Robinhood in reverse, where tax cuts accrue to the rich, and the poor pay an increasing share of their income in taxes.

References:

Jason DeBacker, Bradley T. Heim, Shanthi P. Ramnath, Justin M. Ross, "The impact of state taxes on pass-through businesses: Evidence from the 2012 Kansas income tax reform," in *Journal of Public Economics* 174 (June 2019): 53-75.
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Governor's Council on Tax Reform Final Report.
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[2] https://taxfoundation.org/every-tax-cut-kansas/

[3] https://www.cbpp.org/research/state-budget-and-tax/kansas-provides-compelling-evidence-of-failure-of-supply-side-tax