KANSAS ACTION FOR CHILDREN

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Kansas Action for Children
SB 339Testimony
Senate Committee on Assessment and Taxation
February 14, 2012

Chairman Donovan and Members of the Committee:

Thank you for the opportunity to testify on SB 339 and the negative impact it would have on Kansas families and their children.

Kansas Action for Children is a not-for-profit child advocacy organization founded in 1979. For more than 30 years, KAC has worked with lawmakers on policy solutions that improve the lives of Kansas children and their families.

As Kansas families begin the slow recovery from the Great Recession, a new economic threat is on the horizon. Many of the tax provisions in the state tax code for working Kansas families of all income levels would be eliminated under the Governor's tax proposal. These provisions range from the Earned Income Tax Credit (EITC) to the income tax deduction for investments in a 529 higher education savings accounts. I would like to address a few of the provisions at greater length this morning.

Kansas Earned Income Tax Credit

The unfortunate reality in America today is that workers earning minimum wage barely make enough money to support themselves and quickly fall below the poverty line if they are supporting a family. For example, a single parent with two children making minimum wage at a full-time job can work all year without missing a day and still end up almost $2,500 below the 2011 federal poverty guideline of $18,530 for a family of three. The EITC is a refundable income tax credit designed specifically to help make work pay for low-wage workers and their families.

In Kansas, the state EITC lifts thousands of children and their families from poverty each year. Estimates indicate that if the Kansas EITC was repealed nearly 2,000 Kansas families would fall into poverty, including more than 4,000 children. In addition to the financial benefit to recipients, the EITC provides a number of benefits to the state and communities in which recipients live. Specific benefits include:

• **Strengthening state and local economies.** Because the majority of EITC recipients spend their refunds, this money increases economic activity at local merchants and service providers.

• **Improving academic achievement in schools.** A recent study of children in families receiving the EITC found that an increase in family income of $1,000 results in a 6 percent increase in math and reading test scores.

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• **Increasing work among single parents.** Studies show that the EITC has resulted in a significant shift of single parents from welfare to work and that there is a connection between the size of a family's EITC benefit and its likelihood of employment.

Provisions Impacting Middle-Income Families

Unlike the EITC, which is geared specifically to lower-income families, a number of the provisions eliminated under the Governor's proposal would impact middle income Kansas families. These include:

Child and Dependent Care Tax Credit

The Child and Dependent Care Tax Credit reaches all Kansas families with children under the age of 13 in childcare as well as those with other dependents unable to care for themselves. Like the EITC, the Kansas credit is based on the federal credit. The federal credit varies based on the income of the family, ranging from 20 percent to 35 percent of actual childcare costs incurred by families. There is a cap of $3,000 per year for one child and $6,000 per year for two or more children.

The Kansas credit is equal to 25 percent of the federal credit. In 2010, 71,963 families received the credit for a total of $9.6 million returned to household budgets in that year.

Learning Quest State Income Tax Deduction

Kansans who invest in a 529 College Savings Account, including the Kansas Learning Quest Program, receive a Kansas adjusted gross income deduction for their contributions. This deduction applies to contributions of up to $3,000 per beneficiary, per year ($6,000 if married, filing jointly). This tax provision encourages families to save for the higher education of their children. In 2010, more than 20,000 Kansas families used this provision.

Mortgage Interest Income Tax Deduction

Under the Governor's proposal, itemized deductions would be eliminated at the state level. One of the most troubling of these from a child advocacy perspective is the loss of the mortgage interest income tax deduction. While recent events have underscored that homeownership is not the answer for every family, the benefits of growing up in a home that is owned rather than rented are clear. Studies show that children of homeowners have higher reading scores, are more likely to graduate from high school and are twice as likely to achieve higher education. We are concerned about the negative impact the loss of the state deduction would have on homeownership among Kansas families.

Opposition to SB 339

In addition to the concerns above we have many other concerns about the Governor's proposal, including the elimination of the Food Sales Tax Rebate, the renters' portion of the Homestead Program, the Adoption Credit, the Community Service Contribution Credit and the Individual Development Account Credit. We respectfully request your opposition to SB 339 to protect the interests of Kansas children and families and build a strong fiscal foundation for the health, education and economic security of future generations.

ITEP
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KANSAS ACTION FOR CHILDREN
Shaping policy that puts children first.

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Kansas Governor Tax Proposal:
Wealthy Kansans Pay Less, Poor and Middle-Income Kansans Pay More

Kansas Governor Sam Brownback unveiled his long anticipated tax plan last week. Sweeping changes to reduce the state's reliance on its progressive personal income tax are at the core of the proposal. The plan cuts income tax rates, eliminates a variety of income tax deductions and credits, and makes permanent a temporary sales tax rate hike.
An ITEP analysis of the plan finds that the bottom 80 percent of the state's income distribution would collectively see a tax hike under the Brownback plan, while the best off 20 percent of Kansans would see substantial tax cuts. For most middle- and low-income Kansans, the tax break from the income tax rate cuts would be completely offset by the loss of income tax credits and itemized deductions, as well as a higher sales tax rate.

Under Governor Brownback's plan:

- The poorest 20 percent of Kansas taxpayers would pay 2.2 percent more of their income in taxes each year, or an average increase of $242.

- The middle 20 percent of Kansas taxpayers would pay 0.3 percent more of their income in taxes each year, or an average increase of $146.

- Upper-income families, by contrast, reap the greatest benefit with the richest one percent of Kansans, those with an average income of over a million dollars, saving an average of $16,933 a year.

- While the Governor's plan would reduce Kansas taxes overall, it would actually *increase* federal income taxes on Kansans substantially. Because state income taxes can be written off on federal tax returns by those Kansans itemizing their federal income tax returns, Kansas itemizers would have less state income tax to write off and would see their federal income taxes increase by about $76 million overall, under this proposal. This means, for example, that the best off one percent of Kansans would see a federal tax hike averaging $3,708, which would reduce their overall tax cut from $16,933 to $13,225.

Governor Brownback's tax reform proposal would actually make the Kansas tax structure more unfair and ensure that low and middle-income families pay more, while dramatically decreasing state taxes owed by the wealthiest Kansans.

Analysis of Governor Brownback's Tax Proposals
Kansas Residents, 2011 Income Levels

2011 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Income Group	Less Than $20,000	$20,000 – $35,000	$35,000 – $57,000	$57,000 – $90,000	$90,000 – $165,000	$165,000 – $400,000	$400,000 – Or More
Average Income in Group	$11,000	$28,000	$46,000	$73,000	$116,000	$237,000	$1,054,000
Tax as % of Income	+2.2%	+0.9%	+0.3%	+0.0%	–0.2%	–0.9%	–1.6%
Average Tax Change	$242	$247	$146	$14	-$244	-$2,054	-$16,933

Source: Institute on Taxation and Economic Policy

Overview of Brownback's Tax Plan

Personal Income Tax Rates

- New top rate of 4.9% (vs. 6.45%) on taxable income higher than $15,000/$30,000
- Lowers rate on taxable income below $15,000 ($30,000 married couples) from 3.5 to 3%
- Eliminates current top income bracket (Taxable income of $30,000 and above for single and head of household and $60,000 for married couples)

Personal Income Tax Base

- Eliminates Earned Income Tax Credit, Food Sales Tax Rebate, Child and Dependent Care credit and more than a dozen more credits
- Eliminates itemized deductions and handful of other deductions
- Doubles standard deduction for Head of Household filers from $4,500 to $9,000

Targeted Small Business Income Tax Break

- Exempts all non-wage business income

Increased Reliance on the Sales Tax

- Holds sales tax at 6.3% (making permanent a temporary 0.6% increase)

Eliminates Property Tax Credit for Renters

- Eliminates Homestead Refund for renters

Restrictive Tax and Expenditure Limits

- Would limit spending growth to no more than 2 percent a year and return any revenues raised beyond that amount to Kansans in the form of additional tax rate reductions