

Restoring Equity in Our Tax System

Basic Goals:

- Eliminate the sales tax on food over two years;
- Eliminate the corporate income tax over four years;
- Reduce the individual income tax in phases;
- Reduce the state sales tax by 1.0 percent;

Path to Reach the Above Goals:

- Apply the reduced state sales tax rate to additional services – excluding health care services and certain business-to-business services. Kansas currently taxes a number of services, especially those associated with the repair, alternation, maintenance, and application of tangible personal property.
 - Professional, scientific and technical services;
 - Administrative and support services;
 - Personal care and taxi services;
 - Other services (see attached lists). Note: While a discussion may be held on maintaining exemptions for certain services proposed to be taxed, significant amendments would likely necessitate providing a smaller amount of income tax relief.
- Eliminate many of the existing sales tax exemptions:
 - EXCEPT:
 - conceptual;
 - lottery tickets;
 - farm machinery and equipment;
 - manufacturing machinery and equipment; and
 - those which are legally mandated by federal law
 - Include:
 - Governmental;
 - Educational;
 - Other Agricultural;
 - Charitable; and
 - Consumer.
 - Note: A policy question is whether potential amendments to maintain existing exemptions that are proposed to be eliminated also would maintain inequities in the tax code. Why should we continue to pick winners and losers like this?

- Additional language would seek to restore equity by clarifying that the tax would apply to sales of certain digital goods, codes and subscriptions to purchasers who are end users, including the sale and installation of certain computer software, regardless of how access is provided or where such software is located. This proposal, developed in consultation with the Kansas Department of Revenue and based in part upon similar language being utilized in Washington state, seeks to extend the tax to various "e-transactions" that are expected to accelerate in the very near future.

Proposal - Details

Basic Goals:

- **Eliminate the sales tax on food:**
 - While net changes in sales tax base would increase receipts, rate would be reduced substantially;
 - The sales tax on food would be reduced to 3.15 percent on January 1, 2013 and repealed altogether on January 1, 2014.
 - Kansas would join 31 other states (that have a sales tax) that do not tax food. Five states do not have a sales tax;
 - Currently, Kansas is only one of seven states that apply their full sales tax rate to food;
 - Repeal the existing food sales tax rebate program, since it would no longer be needed.
- **Eliminate the corporate income tax:**
 - Corporate rates would be cut in equal portions over four years until totally repealed.
 - The corporate income tax would be eliminated altogether for tax year 2016;
 - Kansas would join three current states that do not have any type of corporate income tax - Nevada, Washington, and Wyoming.

- **Reduce the individual income tax;**
 - Starting in tax year 2012, the bottom bracket would be reduced from 3.50 to 3.30 percent;
 - Starting in tax year 2014, all three brackets would be reduced to 3.10, 5.60, and 5.80 percent, respectively

- **Reduce the state sales tax by 1.0 percent;**
 - While net changes in sales tax base would increase receipts, rate would be reduced substantially;
 - Decrease the rate from 6.3 percent to 5.3 percent, effectively repealing the 2010 tax increase on many consumer purchases; and
 - The 1.0 percent rate decrease would equate to a savings of \$200 on a \$20,000 vehicle purchase.

Revenue-Neutral Fiscal Note for FY 2013

Although the plan is only implemented for the final six months of FY 2013, it is structured to be revenue-neutral relative to current law for that fiscal year, as well as for FY 2015 and subsequent years. For FY 2014, the plan is revenue positive to help offset SGF receipts problems built into current law relative to sales tax changes.

(\$ in millions)

Proposal - SGF Worksheet for FY 2013

\$ 185.7	- Repeal all exemptions except conceptual, legal, farm machinery and equipment, manufacturing machinery and equipment, lottery, and certain others mandated by federal law; Extending tax to previously untaxed services, but not health care or business-to-business services; Reduced rate on food, reduced rate on everything else to 5.3 percent; All occur on January 1, 2013.
(60.0)	- Corp income tax phased out over two years (Need to reverify with KDOR)
53.0	- Repeal Food Sales Tax Rebate Credits (Update from KDOR?)
<u>(177.4)</u>	- First year of lower individual income tax rates (Same as last year)
<u>\$ 1.3</u>	- Final SGF Fiscal Note

Proposal - SGF Worksheet for FY 2014

\$ 390.7	- Net of all aforementioned sales tax changes
(125.0)	- Next step in repeal of corporation income tax
53.0	- Repeal food sales tax rebate credit
<u>(216.3)</u>	- Annualized impact of initial lower individual income tax rate
\$ 102.4	- Final SGF Fiscal Note

Proposal - SGF Worksheet for FY 2015

\$ 582.1	- Net of all aforementioned sales tax changes
(198.8)	- Next step in repeal of corporation income tax
53.0	- Repeal food sales tax rebate credit
<u>(366.6)</u>	- Additional lower individual income tax rates
\$ 39.8	- Final SGF Fiscal Note