



Nick Jordan, Secretary

Sam Brownback, Governor

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Joint Meeting of the House Appropriations Committee and the Senate Ways and Means Committee
Governor's 2015 Tax Policy
by Richard Carlson, Legislative Liaison for the Kansas Department of Revenue

Chairman Ryckman Jr, Chairman Masterson and Members of the Committees:

During the past several decades, Kansas relied on a tax policy based on property, sales and income taxes that resulted in a static economy, limited growth in private sector jobs, and taxpayers leaving the state. These facts are supported by examining the Federal tax returns of Kansans moving out of state from 1993 through 2011, and illustrated by Travis Brown in "How Money Walks" website. Kansas lost a net of \$3.1 billion of taxable income during that 18 year period. United Van Lines moving study is not a new phenomenon, but rather it has a long history in Kansas.

In 2012 and 2013, a comprehensive pro-growth tax reform package was passed, compressing three tax brackets into two and significantly reducing the income tax rates, with further statutory reductions set to occur the next several years.

During tax year 2013, the first year reductions, the tax changes saved Kansans \$730 million, giving them the opportunity to spend, save and invest more of their hard earned money.

The Governor's FY 2016 and 2017 budget proposal has proposed modifications to the 2013 tax policy to continue income tax reduction and promote further growth of the Kansas economy. The income tax rates were reduced on January 1, 2015 and currently are 4.6 percent and 2.7 percent. The lower rate would be proposed to decrease from 2.7 percent to 2.66 percent on January 1, 2016, without any further rate reductions in statute.

Current income tax rates set in statutes are:	2015	2016	2017	2018
	2.7/4.6%	2.4/4.6%	2.3/4.6%	2.3/3.9%
Proposed:	2.7/4.6%	2.66/4.6%	2.66/4.6%	2.66/4.6%

Further income tax rate reductions would come about through the establishment, in statute, of a "Tax Reduction Fund." In the future whenever revenues over the previous year exceed 103 percent, the excess amount will be transferred to the TRF. The Governor and/or the legislature may then use the TRF balances to set further reductions in income tax rates dependent on the growth of the economy in the future years. This change moves the tax policy to a much more sustainable long term policy as economic conditions will drive further reductions in income tax rates.

The small business stimulus for LLCs, Sub Chapter S and Sole Proprietorships would remain in effect. Small businesses have been historically the driver of new jobs throughout the country.

The tax proposal also includes the addition of a "Budget Stabilization Fund" that would be set in statute and utilize growth in revenues greater than 102.0 percent and less than 103.0 percent. This fund would

have statutory limitations on withdrawals and would use the 1.0 percent funding stream until it is maintained at a 5.0 percent cap on expenditures. The legislature, by a majority vote of the members elected to the House of Representatives and the Senate, may appropriate from the Budget Stabilization Fund such additional sums as may be necessary to fund any anticipated or unanticipated deficit in any given fiscal year. When the legislature is not in session the State Finance Council may make transfers out of the BSF only when there is an unanticipated deficit or in order to execute an allotment ordered by the Governor.

The tax proposal also includes accelerating the itemized income tax deduction haircut of 50.0 percent currently set in statute to begin on January 1, 2017 to instead begin on January 1, 2015. This change of date of the haircuts will add additional revenue of \$50.3 million in FY 2016 and \$21.8 million in FY 2017.

See attachment "CHART A" Chart A is a graphic illustration of the flow of revenues in the current and out years, showing the increases in the TRF and the BSF.

The budget proposal for FY 2016 and FY 2017 includes an increase in consumption taxes, which is consistent with the Governor's original tax policy proposal. The proposed consumption tax increase would apply to cigarettes, tobacco products and liquor enforcement. The additional tax on cigarettes and tobacco products is estimated to generate additional revenues in FY 2016 of \$80.8 million, and for FY 2017, \$76.2 million. The liquor tax increase is estimated additional revenues of \$27.1 million in FY 2016 and \$27.9 million in FY 2017. The last increase on cigarette taxes was in 2003, when it increased to 79 cents per pack. The tobacco products tax has held at 10.0 percent of wholesale price since 1972. The proposed rates would be increased to \$2.29 per pack and 25.0 percent of wholesale price. The last increase in the liquor enforcement tax was in 1983 when it was increased from 4.0 percent to 8.0 percent. The liquor enforcement tax would be increased to 12.0 percent.

The Governor also proposes a tax amnesty program for delinquent taxes due in individual, corporate, privilege, state sales and use, liquor, mineral and local sales taxes accrued from tax periods ending on or before December 31, 2013. The Department of Revenue could eliminate penalties and interest if taxes are paid between September 1, 2015 and October 15, 2015 and additional revenues of \$30 million are budgeted.

The following is a summary of the additional revenues the proposed tax policy for FY 2015, FY 2016 and FY 2017:

Tax Policy with 103 percent cap.	\$22.9 million in FY 2016	\$86.7 million in FY 2017
Tax Amnesty	\$30 million in FY 2016	
Cigarette Tax	\$80.8 million in FY 2016	\$76.2 million in FY 2017
Liquor Tax	\$27.1 million in FY 2016	\$27.9 million in FY 2017
Accelerate Income Tax Deductions	\$50.3 million in FY 2016	\$21.8 million in FY 2017
Total	\$211.1 million in FY 2016	\$212.6 million in FY 2017

For the purposes of this briefing we will submit two separate bills to the House Taxation committee and the Senate Assessment & Taxation committee. One bill will be the changes to the existing tax policy covered earlier and one bill for the Cigarette and Liquor tax bills.

Thank you for the opportunity to present the Governor's tax policy. I would be glad to stand for questions.

g's Income Tax Proposal - Tax rates in Tax Year 2015 - 2.7% and 4.6%

a	b	c	d	e	(dollars are in millions)		f	g	h
Fiscal Year	Rate Impact	Rate Red.	Net Impact	SGF Reserve Fund	SGF Reserve Fund	Cumulative	Tax Reduction fund	Cumulative	Tax Reduction fund
2015									
2016	\$ 26.4	\$ (3.5)	\$ 22.9	\$ 22.9	\$ 22.9	\$ 22.9	\$ 28.7	\$ 28.7	\$ 28.7
2017	\$ 98.6	\$ (11.9)	\$ 86.7	\$ 58.0	\$ 80.9	\$ 80.9	\$ 169.7	\$ 198.4	\$ 198.4
2018	\$ 242.2	\$ (12.5)	\$ 229.7	\$ 60.0	\$ 140.9	\$ 140.9	\$ 451.7	\$ 650.1	\$ 650.1
2019	\$ 527.6	\$ (13.1)	\$ 514.5	\$ 62.8	\$ 203.7	\$ 203.7	\$ 472.5	\$ 1,122.6	\$ 1,122.6
2020	\$ 554.0	\$ (13.8)	\$ 540.2	\$ 67.7	\$ 271.4	\$ 271.4	\$ 497.0	\$ 1,619.6	\$ 1,619.6
2021	\$ 581.7	\$ (14.5)	\$ 567.2	\$ 70.2	\$ 341.6	\$ 341.6			
Total	\$ 2,030.4	\$ (69.3)	\$ 1,961.1	\$ 341.6	\$ 341.6	\$ 341.6	\$ 1,619.6	\$ 1,619.6	\$ 1,619.6

Tax Rates in Tax Year 2015 - 2.7% and 4.6%

Create an SGF Reserve Fund and a Tax Reduction Fund
 SGF Growth between 2% and 3% deposited to the SGF Reserve Fund
 SGF Growth over 3% is deposited to the Tax Reduction Fund
 Growth over 3% used to further reduce tax rates beginning in Tax Year 2016

	Tax Year				
	2015	2016	2017	2018	2019
Lower	2.700%	2.660%	2.660%	2.660%	2.660%
Upper	4.600%	4.600%	4.600%	4.600%	4.600%