



Informational Hearing: HB 2444

House Tax Committee

Tuesday, March 15, 2016

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KANSAS DEPARTMENT OF REVENUE

HOUSE TAX COMMITTEE

TUESDAY, MARCH 15, 2016

- I. We have reduced individual income taxes by 30% for individuals, families and small business. 71% of tax savings went to Kansas individuals and families. 29% went to small business.
- II. We have the highest Earned Income Tax Credit in the region.
- III. We increased the standard deduction for married filing jointly and head of household, the latter benefits single parent households. Approximately 80% of Kansans use the standard deduction now.
- IV. 388,000 of our lowest income Kansans have been removed from the tax rolls, now with zero tax liability.
- V. Docking Institute of Public Affairs – Fort Hays State University
Kansas Speaks 2015 – Statewide Public Opinion Survey
Small business taxes:

Breakdown:

55% - decrease taxes on small business

33% - remain the same

11% - increase taxes on small business

- VI. Tax Year 2013 and 2014 Net Results of Small Business Tax Policy
 - Net increase in small business tax filers is 18,340. First time filers are those whose social security number and name have not previously appeared on a Kansas tax return.
 - New income to the State of Kansas through these filers is over \$1 billion.

Breakdown of Small Business Tax Year 2014 First Time Filers by Net Income:

\$25,000 or less net income	90.8% or 10,673
\$25,000 to \$75,000 net income	6.5% or 767
\$75,000 to \$100,000 net income	0.7% or 79
\$100,000 or more net income	2.0% or 227

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House Taxation Committee

Introduction

- Economic Analysis was conducted on HB 2444 to observe specific dynamic effects and inform legislators for purposes of public policy decisions.
- Dynamic forecasting and policy analysis was conducted using Regional Economic Models, Inc., or REMI
- REMI models public policy changes like a science experiment
 - Simulation vs. Control

Introduction

- Tax policy changes of HB 2444 were imputed into the Kansas economy
 - Production Costs were increased to the dollar amount noted in the HB 2444 Fiscal Note
 - Price of “Food and beverages consumed for off-premises consumption” was lowered by the dollar amount noted
 - We adjusted state government expenditures because the dollar amount used to lower the price of food was greater than the tax raised from small businesses
- The simulation was run with economic results given RELATIVE to the Kansas economy in the case HB 2444 was NOT enacted.

Informational Hearing: HB 2444

Economic Effects of HB 2444

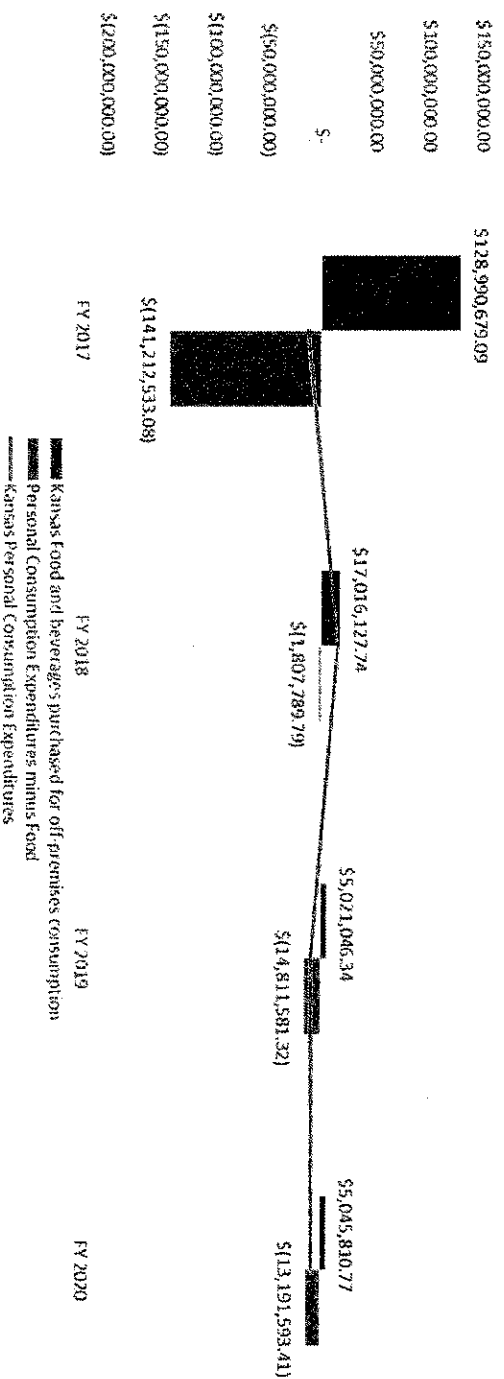
Summary

- The Kansas economy will see boosts in real income, population and consumption from lower food sales tax
- Those benefits will then be overcome by the increased costs (taxes) to businesses
- Kansas businesses will take time to adapt to higher production cost environment
 - Businesses will see falling investment, falling exports to national and global markets, and falling job growth
- Eventually Kansas consumers will be worse off than current economic trajectory due to falling income, jobs, and supply of goods/services
- With slower growth in income, consumption and business activity, dynamic economic effects will put downward pressure on revenues collected.

Economic Effects of HB 2444

Real Personal Consumption Expenditures Kansas

HB 2444 Deviation from Status Quo Forecast

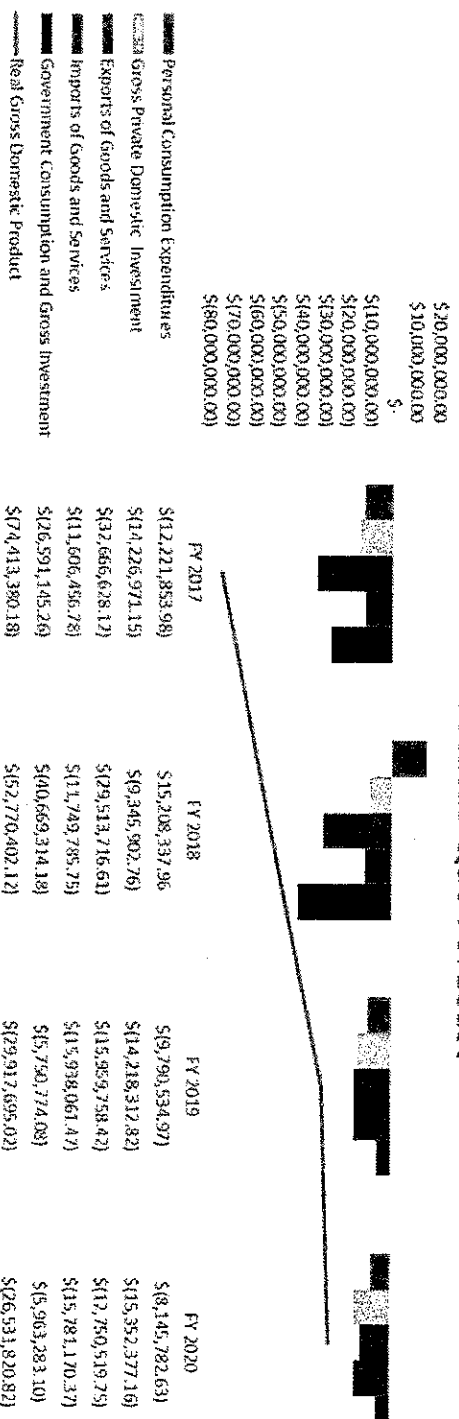


Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

Real Gross Domestic Product and Components Kansas

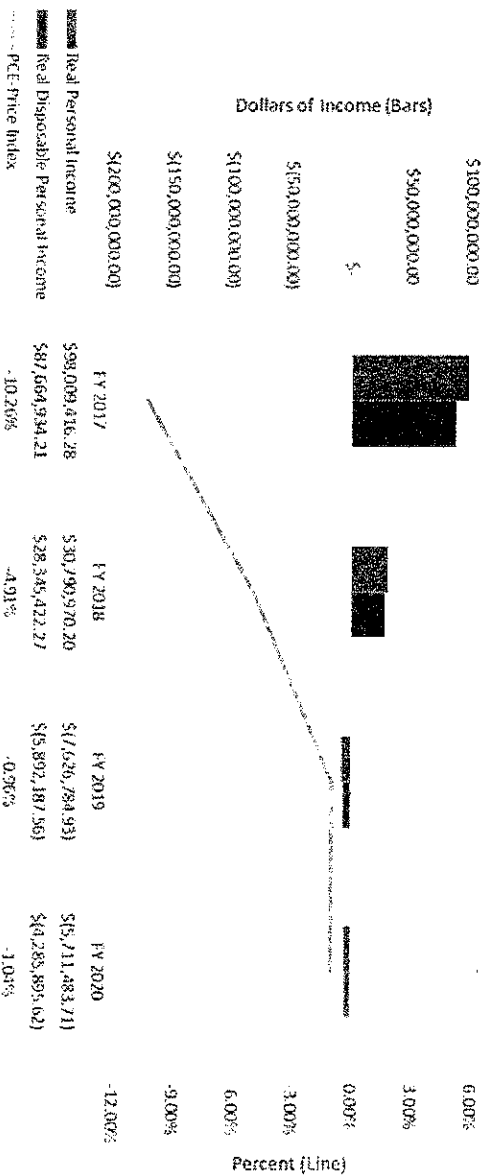
HB 2444 Deviation from Status Quo Forecast



Note - Values are in 2009 Dollars
Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

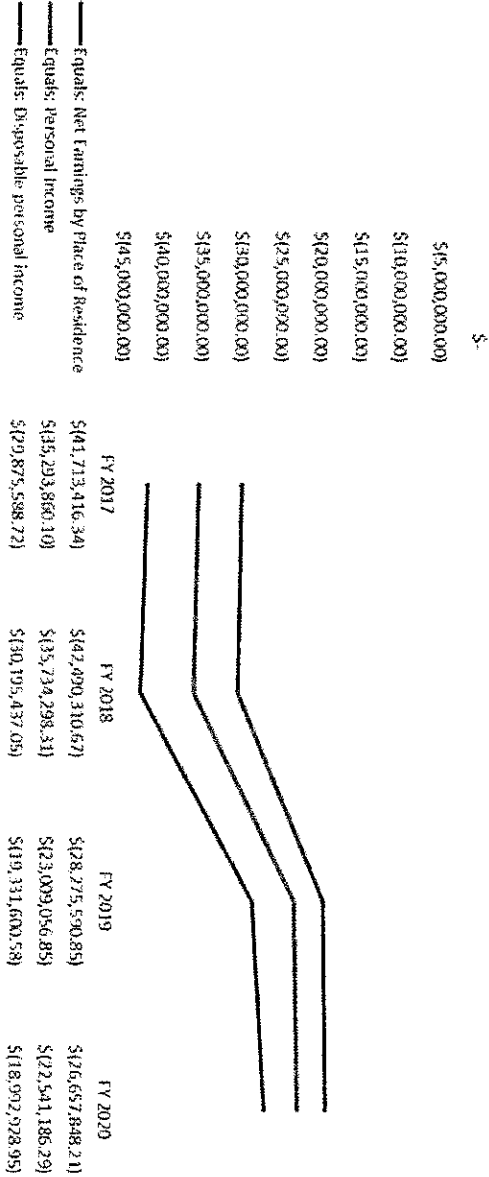
Real Income
Kansas
HB 2444 Deviation from Status Quo Forecast



Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

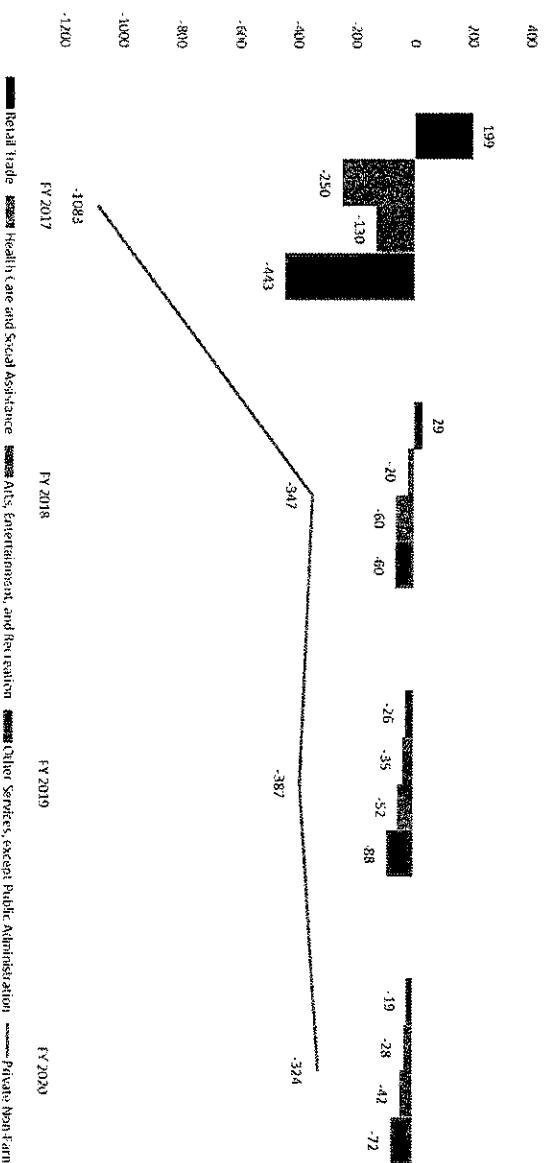
Income and Earnings Kansas HB 2444 Deviation from Status Quo Forecast



Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

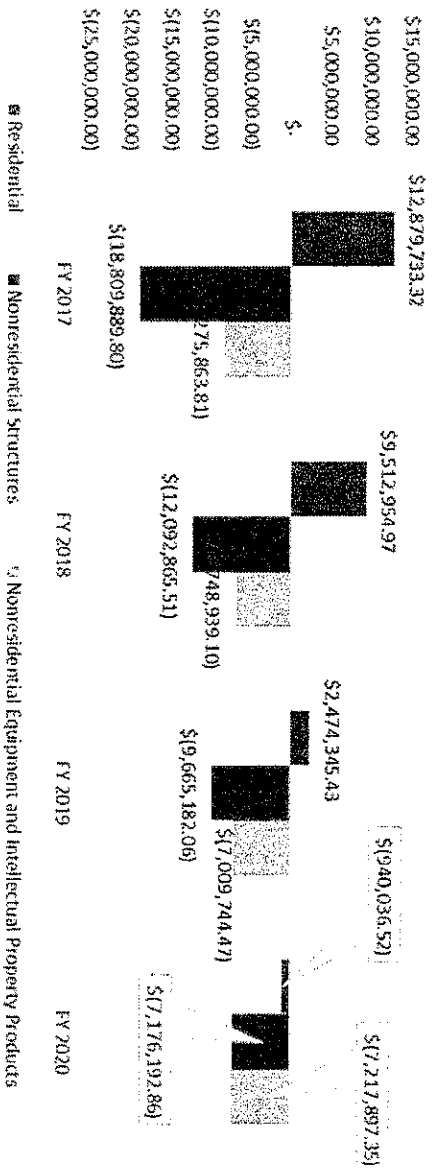
Private Sector Jobs by Industry Kansas HB 2444 Deviation from Status Quo Forecast



Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

Real Gross Private Domestic Investment Kansas HB 2444 Deviation from Status Quo Forecast



Note - Values are in 2009 Dollars
Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

Retail Sales by Industry Kansas

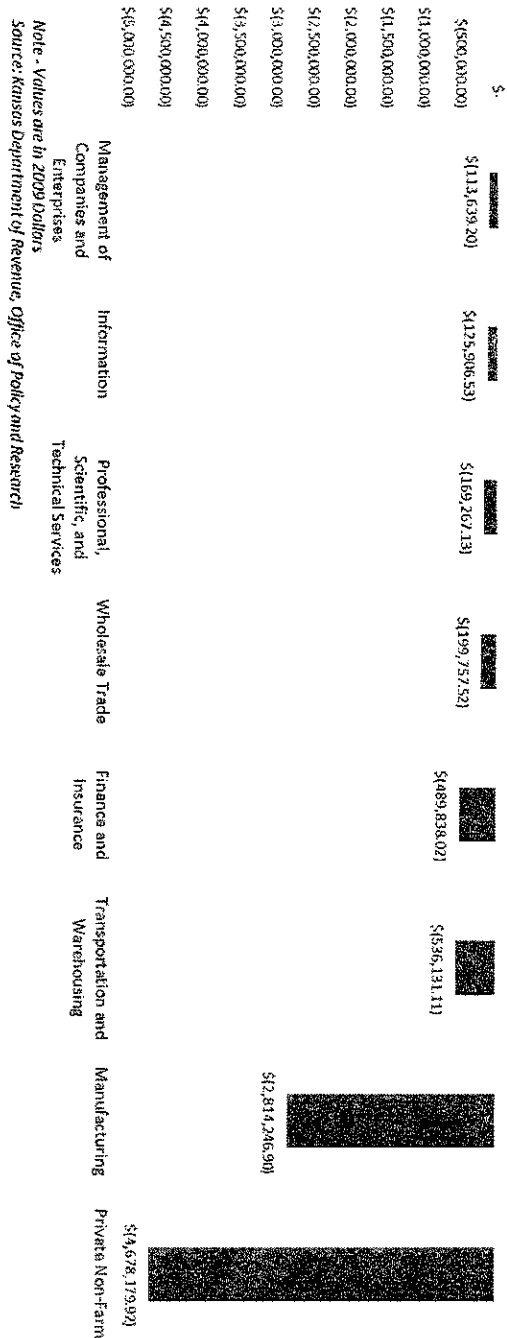
HB 2444 Deviation from Status Quo Forecast

	FY 2017	
Private Non-Farm	(\$1,218,371,881)	
Other Services, except Public Administration	(\$12,825,776.58)	\$19,586.36
Health Care and Social Assistance	(\$16,590,615.85)	\$768,043.03
Finance and Insurance	(\$12,186,371.88)	\$1,492,228,133
Professional, Scientific, and Technical Services	(\$8,132,309.43)	
Mining	(\$17,931,318.51)	
Construction	(\$17,786,170.57)	
Information	(\$5,602,965.34)	
Real Estate and Rental and Leasing	(\$5,361,736.85)	
Accommodation and Food Services	(\$4,986,024.05)	
Administrative and Waste Management Services	(\$4,570,714.80)	
Arts, Entertainment, and Recreation	(\$13,701,589.51)	
Transportation and Warehousing	(\$13,690,089.77)	
Utilities	(\$12,560,722.35)	
Educational Services	(\$1,147,529.25)	
Management of Companies and Enterprises	(\$492,459.04)	
Forestry, Fishing, and Related Activities		
Wholesale Trade		
Manufacturing		
Retail Trade		

Note - Values are in 2009 Dollars
Source: Kansas Department of Revenue, Office of Policy and Research

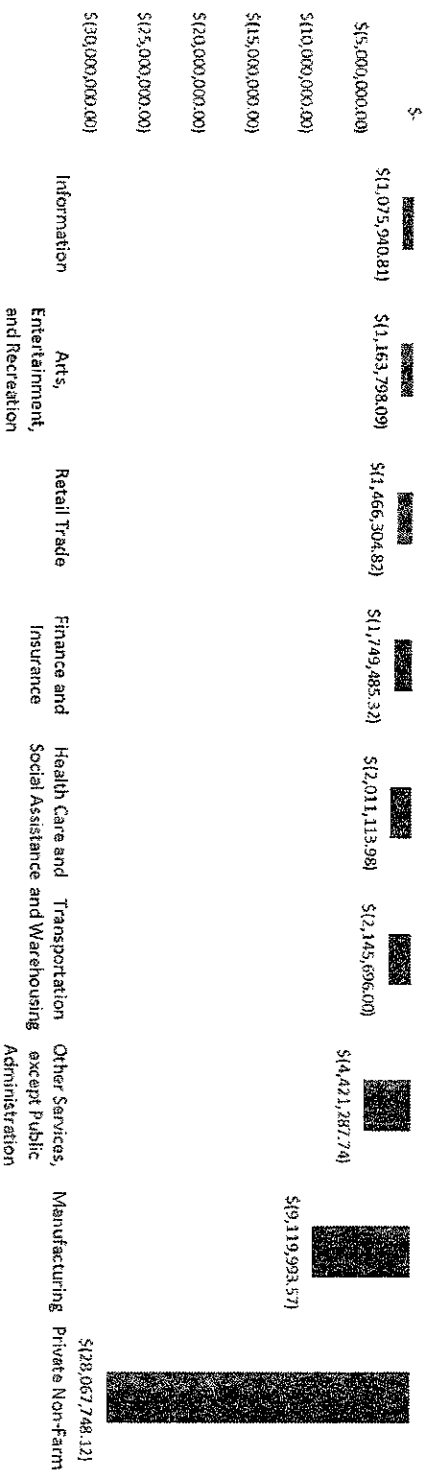
Economic Effects of HB 2444

Real Global Exports Kansas HB 2444 Deviation from Status Quo Forecast FY 2017



Economic Effects of HB 2444

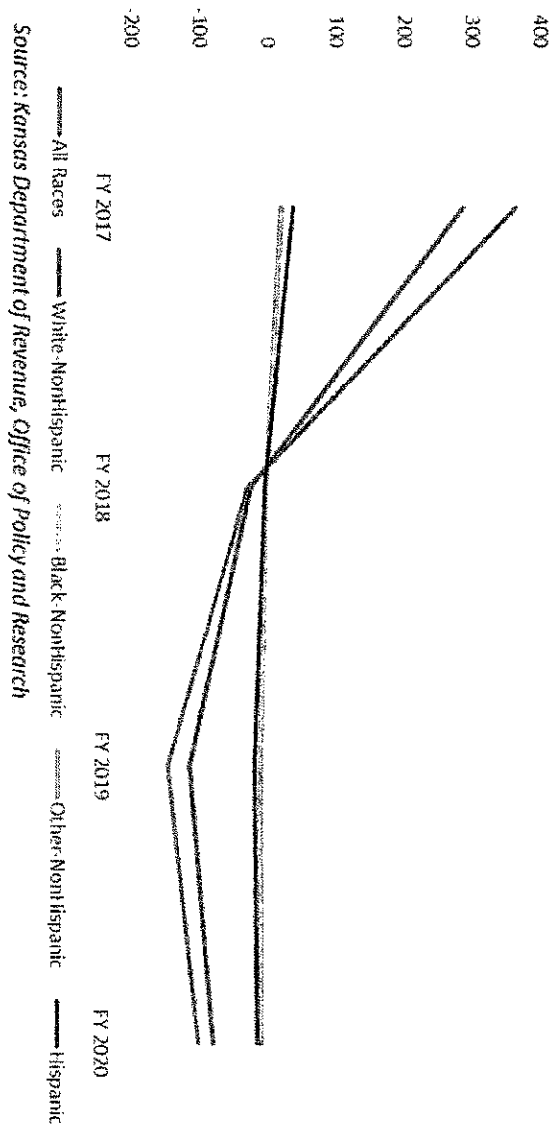
Real Exports to Rest of the Nation Kansas HB 2444 Deviation from Status Quo Forecast FY 2017



Note - Values are in 2009 Dollars
Source: Kansas Department of Revenue, Office of Policy and Research

Economic Effects of HB 2444

Migration Responsive to Economic & Amenity Factors Kansas HB 2444 Deviation from Status Quo Forecast



Source: Kansas Department of Revenue, Office of Policy and Research

Summary

- Kansans will see growth in real personal income due to lower price on foods
 - Kansas will see heavy losses in low wage jobs, overwhelming the gains to low food prices
- Kansas small businesses will lose competitive edge to serve national/global markets as well as the Kansas population
- Kansas will become a relatively unattractive place for economic migrants, due to slower growing wages and job opportunities
- These dynamic effects could worsen revenue collections for individual income, oil and gas, and even sales taxes

Thank You

Informational Hearing: HB 2444

Appendix

Appendix

- To better simulate the components of the Kansas economy, the increased taxes raised were distributed to businesses relative to actual industrial proportion of the small business pass-through entities (non-farm)

Distribution of Small Business Tax Returns By Industry		
Kansas		
Tax Year 2013		
Industry	Percent of Total	
Agriculture, Forestry, Fishing, and Hunting	1.4%	
Mining, Quarrying, and Oil and Gas Extraction	3.5%	
Utilities	0.8%	
Construction	7.7%	
Manufacturing	1.2%	
Wholesale Trade	1.1%	
Retail Trade	9.2%	
Transportation and Warehousing	2.5%	
Information	0.8%	
Finance and Insurance	3.4%	
Real Estate and Rental and Leasing	3.2%	
Professional, Scientific and Technical Services	10.1%	
Management of Companies	0.0%	
Administrative and Waste Services	4.9%	
Private Educational Services	1.7%	
Health Care and Social Assistance	7.3%	
Arts, Entertainment and Recreation	3.7%	
Accommodation and Food Services	1.2%	
Other Services	13.2%	
Public Administration	0.0%	
Not Classified	22.9%	

Source: Kansas Department of Revenue, Office of Policy and Research

Appendix

Employment by Occupation

Kansas

HB 2444 Deviation from Status Quo Forecast

Category	FY 2017	FY 2018	FY 2019	FY 2020
Sales and related, office and administrative support occupations	-150	-130	-99	-83
Building and grounds cleaning and maintenance/personal care and service occupations	-309	-82	-68	-56
Management, business, and financial occupations	-175	-93	-53	-46
Construction and extraction occupations	-71	-62	-41	-41
Education, training, and library occupations	-162	-189	-33	-33
Transportation and material moving occupations	-62	-42	-28	-23
Healthcare occupations	-114	-51	-23	-20
Food preparation and serving related occupations	-101	-35	-22	-18
Installation, maintenance, and repair occupations	-49	-29	-19	-17
Computer, mathematical, architecture, and engineering occupations	-53	-36	-18	-15
Arts, design, entertainment, sports, and media occupations	-50	-24	-18	-15
Protective service occupations	-56	-61	-14	-13
Production occupations	-21	-17	-15	-11
Community and social service occupations	-47	-22	-8	-7
Life, physical, and social science occupations	-13	-13	-4	-3
Legal occupations	-11	-9	-3	-3
Farming, fishing, and forestry occupations	0	-1	0	0
Total	-1,444	-896	-466	-405

Source: Kansas Department of Revenue, Office of Policy and Research

Appendix

Real Global Exports

Kansas

HB 2444 Deviation from Status Quo Forecast

Category	FY 2017	FY 2018	FY 2019	FY 2020
Private Non-Farm	\$ (4,678,179.92)	\$ (2,818,852.98)	\$ (2,258,428.12)	\$ (1,723,508.26)
Manufacturing	\$ (2,814,246.90)	\$ (1,713,346.60)	\$ (1,377,228.43)	\$ (1,044,221.44)
Transportation and Warehousing	\$ (536,131.11)	\$ (312,511.59)	\$ (244,861.88)	\$ (185,457.54)
Finance and Insurance	\$ (489,838.02)	\$ (304,103.36)	\$ (256,222.12)	\$ (212,567.84)
Wholesale Trade	\$ (199,757.52)	\$ (117,606.74)	\$ (90,649.57)	\$ (64,642.23)
Professional, Scientific, and Technical Services	\$ (169,267.13)	\$ (101,557.51)	\$ (83,636.85)	\$ (68,402.77)
Information	\$ (125,906.53)	\$ (74,620.03)	\$ (59,226.24)	\$ (45,432.22)
Management of Companies and Enterprises	\$ (113,639.20)	\$ (54,692.77)	\$ (30,295.09)	\$ (8,241.19)
Mining	\$ (88,664.63)	\$ (56,045.42)	\$ (47,560.29)	\$ (39,314.58)
Retail Trade	\$ (50,850.09)	\$ (31,351.44)	\$ (26,263.07)	\$ (21,762.14)
Real Estate and Rental and Leasing	\$ (32,543.46)	\$ (19,185.04)	\$ (15,245.37)	\$ (11,804.83)
Administrative and Waste Management Services	\$ (17,916.19)	\$ (10,186.27)	\$ (7,870.85)	\$ (5,955.33)
Arts, Entertainment, and Recreation	\$ (14,087.78)	\$ (8,687.51)	\$ (7,394.86)	\$ (6,324.82)
Other Services, except Public Administration	\$ (9,772.57)	\$ (5,869.46)	\$ (4,870.31)	\$ (4,040.98)
Accommodation and Food Services	\$ (8,327.66)	\$ (4,636.80)	\$ (3,455.17)	\$ (2,466.72)
Utilities	\$ (3,745.73)	\$ (2,435.06)	\$ (2,073.54)	\$ (1,682.59)
Educational Services	\$ (1,625.39)	\$ (964.24)	\$ (790.14)	\$ (645.23)
Health Care and Social Assistance	\$ (741.57)	\$ (422.51)	\$ (326.85)	\$ (245.58)
Forestry, Fishing, and Related Activities	\$ (665.64)	\$ (387.37)	\$ (281.13)	\$ (175.70)
Construction	\$ (452.79)	\$ (243.27)	\$ (176.36)	\$ (124.53)

Note - Values are in 2009 Dollars

Source: Kansas Department of Revenue, Office of Policy and Research

Appendix

Real Exports to Rest of the Nation

Kansas

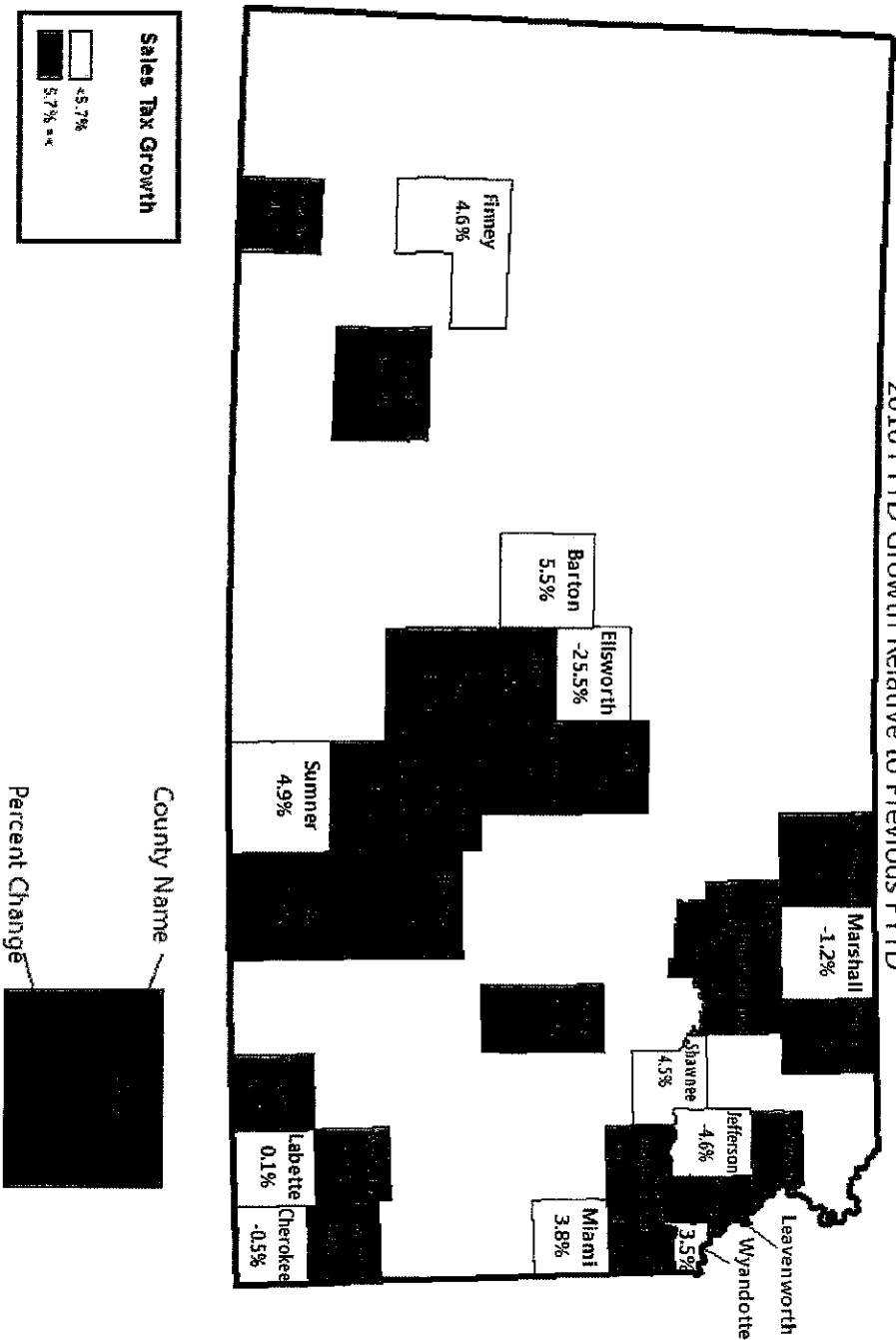
HB 2444 Deviation from Status Quo Forecast

Category	FY 2017	FY 2018	FY 2019	FY 2020
Private Non-Farm	\$ (28,067,748.12)	\$ (16,317,126.12)	\$ (12,968,040.65)	\$ (10,074,279.24)
Manufacturing	\$ (9,119,993.57)	\$ (4,966,671.05)	\$ (3,853,126.71)	\$ (2,877,464.16)
Other Services, except Public Administration	\$ (4,421,287.74)	\$ (2,678,677.26)	\$ (2,188,351.36)	\$ (1,795,335.26)
Transportation and Warehousing	\$ (2,145,696.00)	\$ (1,225,155.23)	\$ (946,591.44)	\$ (707,766.13)
Health Care and Social Assistance	\$ (2,011,113.98)	\$ (1,166,807.88)	\$ (897,733.64)	\$ (674,329.41)
Finance and Insurance	\$ (1,749,485.32)	\$ (1,057,258.38)	\$ (849,924.53)	\$ (669,182.47)
Retail Trade	\$ (1,466,304.82)	\$ (887,157.60)	\$ (729,840.56)	\$ (595,861.20)
Arts, Entertainment, and Recreation	\$ (1,163,798.09)	\$ (706,876.27)	\$ (582,438.02)	\$ (482,905.82)
Information	\$ (1,075,940.81)	\$ (661,091.70)	\$ (531,848.97)	\$ (405,103.03)
Utilities	\$ (806,656.08)	\$ (507,507.31)	\$ (416,775.75)	\$ (326,271.71)
Professional, Scientific, and Technical Services	\$ (836,811.10)	\$ (495,376.49)	\$ (402,390.52)	\$ (323,761.77)
Real Estate and Rental and Leasing	\$ (601,766.08)	\$ (401,940.15)	\$ (336,915.47)	\$ (273,100.33)
Administrative and Waste Management Services	\$ (572,273.20)	\$ (337,422.20)	\$ (270,859.50)	\$ (213,026.05)
Accommodation and Food Services	\$ (627,194.74)	\$ (364,518.15)	\$ (281,672.55)	\$ (208,733.54)
Mining	\$ (415,557.40)	\$ (252,309.93)	\$ (214,281.99)	\$ (176,217.81)
Wholesale Trade	\$ (517,571.33)	\$ (277,056.65)	\$ (200,760.86)	\$ (136,531.23)
Construction	\$ (281,557.62)	\$ (172,171.28)	\$ (143,696.09)	\$ (117,766.24)
Educational Services	\$ (233,593.53)	\$ (148,966.63)	\$ (117,959.95)	\$ (94,504.37)
Management of Companies and Enterprises	\$ (19,251.49)	\$ (8,955.97)	\$ (4,787.64)	\$ (1,192.72)
Forestry, Fishing, and Related Activities	\$ (6,895.22)	\$ (1,205.98)	\$ 1,914.90	\$ 4,774.00

Note - Values are in 2009 dollars

Source: Kansas Department of Revenue, Office of Policy and Research

Sales Tax Collections Grocery Stores and Supermarkets Disclosable Kansas Counties 2016 FYTD Growth Relative to Previous FYTD



Note - Sales tax rate increase from 6.15% - 6.5% is 5.7%
Source: Kansas Department of Revenue, Office of Policy and Research