

Nick Jordan, Secretary

Sam Brownback, Governor

January 16, 2015
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%
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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

Governor'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	Cumulative SGF Reserve Fund	Tax Reduction fund	Cumulative Tax Reduction fund
2015							
2016	\$ 26.4	\$ (3.5)	\$ 22.9	\$ 22.9	\$ 22.9	\$	\$
2017	\$ 98.6	\$ (11.9)	\$ 86.7	\$ 58.0	\$ 80.9	\$ 28.7	\$ 28.7
2018	\$ 242.2	\$ (12.5)	\$ 229.7	\$ 60.0	\$ 140.9	\$ 169.7	\$ 198.4
2019	\$ 527.6	\$ (13.1)	\$ 514.5	\$ 62.8	\$ 203.7	\$ 451.7	\$ 650.1
2020	\$ 554.0	\$ (13.8)	\$ 540.2	\$ 67.7	\$ 271.4	\$ 472.5	\$ 1,122.6
2021	\$ 581.7	\$ (14.5)	\$ 567.2	\$ 70.2	\$ 341.6	\$ 497.0	\$ 1,619.6
Total	\$ 2,030.4	\$ (69.3)	\$ 1,961.1	\$ 341.6	\$	\$ 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
Lower	2.700%	2.660%	2.660%	2.660%
Upper	4.600%	4.600%	4.600%	4.600%