KANSAS BOARD OF REGENTS

House Committee on Taxation
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CEO and President

Good afternoon Chairman Johnson, and Members of the Committee. This testimony concerns the taxation of employee contributions to the Regents retirement plan.

There is legislation that has been introduced by the House to impose the state's income tax on employee contributions to the Regents retirement plan beginning in tax year 2017. This change in application of the state tax will reduce income to our 12,401 plan members who are active employees and making contributions. Such a pay cut would come on the heels of increased costs state employees have had to absorb for participating in the State Employee Health Plan.

As outlined for you last week, eligible faculty and staff participate in the Regents Retirement Plan (K.S.A. 74-4925). The employee (5.5 percent) and employer (8.5 percent) contributions are defined by statute.

Regents Retirement Plan

	Plan Participants	Employee Contributions
2016	27,148	$ 47,639,857
2015	27,227	$ 47,646,963
2014	26,468	$ 47,011,963

Of those plan participants noted above, there is a mix of active employees and retirees who have assets in the plan and are making withdrawals.

For estimates as to what revenue this tax change would generate for the State General Fund, we must rely on the Department of Revenue and its tax policy group.

Your Legislative Research Department publishes annually the Tax Facts document, which includes background narrative on setting tax policy:

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> “Economists generally believe that with a diversified revenue portfolio not relying too heavily on a single source, Kansas state and local governments are better able to withstand economic downturns. Indeed, the Governor’s Tax Equity Task Force in 1995 concluded as a major tax policy objective that:
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>> ‘The state and local tax system should be balanced and diversified. A diversified tax system offers a blend of economic tradeoffs. Because all revenue sources have their weaknesses, a balanced tax system will reduce the magnitude of problems caused by over reliance on a single tax source. It will also result in lower rates on each tax and reduce the pressure of competition from other states that have lower rates for a particular tax.”

Setting the tax policy that best serves our state is a significant challenge that you must now confront. We recognize you must balance the competing needs of our state budget with those parties seeking changes that impact state revenues.

We must also point out that the proposed legislation does not apply state income tax to other retirement plans that have the same state income tax benefit. If the Committee’s intent is to increase state tax revenues while ensuring equitable treatment of public employees, it would seem consideration should be given to a wider application of this tax.