Kansas: Lawmakers pass a bill to stop the bleeding

David M. Kall | Thursday, June 8, 2017

Five years ago Kansas enacted its tax reform package, deploying what most have characterized as devastating cuts. Marking the occasion, the Kansas Center for Economic Growth remarked that Gov. Sam Brownback's "pro-growth tax policy" actually "inflicted more damage on state finances in the first year alone than the entire Great Recession."

In 2016, lawmakers tried to fix some of the damage. However, as we noted in January, such efforts, including one to repeal the pass-through exemption on business income known as the LLC Loophole, did not ultimately pass.

Until now, 2017 had not been much better. But on June 6, 2017, lawmakers overrode the governor's veto of SB 30, which will reverse some of the most problematic provisions that have been dragging down the Sunflower State's economy.

The most recent Conference Committee brief reveals that SB 30 repeals the exemption for non-wage business income that has been in effect since tax year 2013. In addition, it increases individual income tax rates, beginning in tax year 2017, by way of the utilization of a three-bracket system of 2.9 percent, 4.9 percent, and 5.2 percent. For tax year 2018 and all years thereafter, a three-bracket system of 3.1 percent, 5.25 percent, and 5.7 percent would be used. Current law provides for a two-bracket system with rates of 2.70 percent and 4.60 percent in tax year 2018.

Beyond these provisions, SB 30 allows for the following:

- An itemized deduction for individual income tax purposes of 50.0 percent of medical expenses currently allowed as itemized deductions under federal law for tax year 2018. The amount would be increased to 75.0 percent of the federal allowable amount for tax year 2019 and to 100.0 percent in tax year 2020 and thereafter.
- Itemized deductions for mortgage interest and property taxes paid, currently set at 50.0 percent of the federal allowable amounts, to be increased to 75.0 percent for tax year 2019 and to 100.0 percent beginning in tax year 2020.
- Starting in tax year 2018, the low-income exclusion threshold (below which any positive income tax liability is otherwise eliminated) is reduced from $12,500 to $5,000 for married filers; and from $5,000 to $2,500 for single filers.

The revenue increases by year that SB 30 contemplates are as follows:

- Fiscal year 2018: $591.0 million
- Fiscal year 2019: $633 million
- Fiscal year 2020: $617.4 million
- Fiscal year 2021: $584.4 million
- Fiscal year 2022: $590.3 million

SB 30 will help to mitigate the school funding problem as well, which has been a difficult issue to solve. In March, we described the state Supreme Court decision concluding that the K-12 public education financing system is unconstitutional. The court reasoned that its "structure and implementation [are] not reasonably calculated to have all Kansas public education students meet or exceed the standards" set out in previous case law, and now codified in Kansas statute.

Prior to SB 30's passage, USNews reported that by June 2019, Kansas would see a budget shortfall of $887 million. This even though the Division of Budget's April 2017 Consensus Revenue Estimate increased the revenue estimates for fiscal years 2017 and 2018 by 5.2 percent and 4.6 percent, respectively, over the November 2016 estimate. The fiscal 2019 estimate decreased by .2 percent over the November figure.

The April 2017 estimate highlighted volatility in energy prices, lower sustained agricultural commodity prices, and consumer and business demand for products and services subject to sales taxation, as significant concerns, though personal income is expected to grow, by 4 percent in 2017, and 4.1 percent in 2018.

In the aftermath of the veto override, *The Washington Post* characterized the loss as a rebuke for the governor. And another stakeholder, the president of Kansas Action for Children, an advocacy group in Topeka, was pleased that "[w]hat we were able to do in the last 24 hours can allow us to start down that road, to begin repairing all the damage done after living with Gov. Brownback's failed tax experiment for five years."

Similarly, *The New York Times* called the override "a remarkable rejection of the state's tax-cutting approach after years of mounting uncertainty and unhappiness in Kansas over whether the tax cuts were working…For Mr. Brownback, a onetime presidential candidate who has grown increasingly isolated in Kansas, it was a devastating blow — a final rejection by some of his allies for his centerpiece doctrine."

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Team member bio