INSTITUTE ON TAXATION AND ECONOMIC POLICY

Informing the debate over tax policy nationwide

Contact: Anne Singer, 202.299.1066 x 27

May 24, 2012

Tax Bill Signed by Governor Brownback Makes Kansas an Outlier

Kansas Governor Sam Brownback recently signed into law Senate Substitute for HB 2117, a tax bill that dramatically changes the Kansas income tax structure. The legislation will cut taxes by over $760 million a year but will actually increase taxes on some low- and middle-income families. This report describes the legislation and its impact on working families.

Key components of the legislation include:

- Reducing income tax rates, with the top rate dropping from 6.45 to 4.9 percent and the bottom rate dropping from 3.5 to 3.0 percent.
- Exempting all "pass-through" business income from the personal income tax base.
- Eliminating targeted tax credits including the Food Sales Tax Rebate, Child and Dependent Care Credit, and the Homestead Property Tax Refund for renters.
- Increasing the standard deduction for head of household filers and married couples.

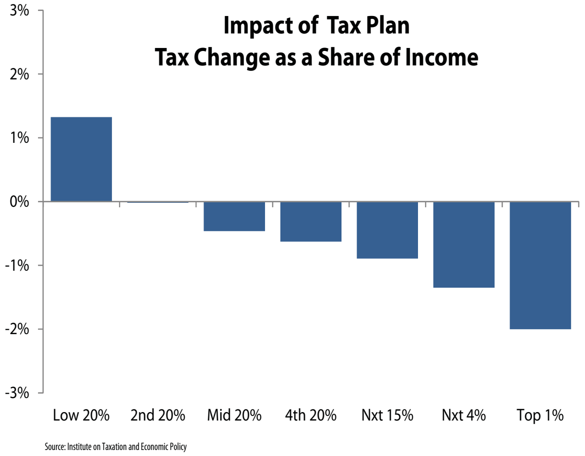
Kansas Becomes an Outlier

The overwhelming trend in state tax policy is to exempt groceries from the sales tax base. This is seen as the best way to mitigate the impact of sales taxes on low income families. The minority of states that still apply the sales tax to groceries typically offer a targeted tax credit to offset sales taxes paid. Until this week, Kansas offered such a credit. With the repeal of the Food Sales Tax Rebate (FSTR) the state now joins only Mississippi and Alabama in applying the sales tax to food and not offering any type of targeted low income relief. The FSTR offered targeted tax relief to Kansans over 55 and those with children who have less than $35,400 of income. Families with income of less than $17,700 could claim $91 per family member to offset the sales tax they paid on food. Even after the income tax rate cut and the increase in the standard deduction for heads of household and married couples, a family of four with $17,000 of income will lose $294 because of the elimination of this important credit. A single parent family with two children whose total income is $12,000 will lose $246 as a result of the newly signed law. This $246 amounts to just over 2 percent of their income.

Fairness and Revenue Implications

Taken as a whole, the only income group that will see their taxes increase under the bill recently signed are the poorest 20 percent of Kansans, those with an average income of just $11,000.

- In fact, the poorest 20 percent of Kansas taxpayers will pay 1.3 percent more of their income in taxes each year, or an average increase of $148.
- The middle 20 percent of Kansas taxpayers will pay 0.5 percent less of their income in taxes, or an average tax cut of $212.
- The wealthiest one percent of Kansans would see the biggest benefit from this new law. Their state income taxes will drop by about $21,087 on average, or 2 percent of their income.
- ITEP estimates that had this law been in effect in 2011 the cost would have been $764 million.



Appendix:

Analysis of Senate Substitute for House Bill 2117 *Kansas Residents, 2011 Income Levels*								
2011 Income Group	Low 20%	2nd 20%	Mid 20%	4th 20%	Nxt 15%	Nxt 4%	Top 1%	
Income Range	Less Than $20,000	$20,000 – $35,000	$35,000 – $57,000	$57,000 – $90,000	$90,000 – $165,000	$165,000 – $400,000	$400,000 – Or More	$ State Impact (thousands)
Average Income in Group	$11,000	$28,000	$46,000	$73,000	$116,000	$237,000	$1,054,000	
Tax as % of Income	+1.3%	–0.0%	–0.5%	–0.6%	–0.9%	–1.3%	–2.0%	$ –764,000
Average Tax Change	148	–5	–212	–455	–1,038	–3,198	–21,087	