

White Paper
League of Women Voters Kansas

The League of Women Voters Kansas supports a broad-based state tax system that has diverse sources of revenue and that is equitable, provides adequate revenue, and is effectively and economically administered. This position may be tested as Governor Sam Brownback again this year promotes his efforts to reduce the amount of individual income tax and corporate income tax.

In his State of the State Address on January 2011, Governor Brownback stated that growing the Kansas economy is his first priority and that tax cuts and investments in higher education would be a large part of that effort. Governor Brownback proposed to change the existing tax code to encourage investment, income growth, and job creation. He pledged to work with the Legislature on “resetting the tax code, particularly with an eye toward lowering income tax rates.”

Beginning with Legislative Session 2011, legislation was proposed to reduce both individual income and corporate income tax rates, and proposals to replace that state revenue with increases to retail sales tax rates. It is important to remember that 48% of the tax revenue is from Individual Income Tax collected in Kansas. the Governor wants to collect \$____,____,____ from a revenue source other than Individual Income tax. In other words, the Governor wishes to shift the tax burden away from Individual Income Tax to Retailers Sales Tax and Property Tax.

On January 31, 2011, House Bill 2091 was introduced to lower the Kansas State Retailers Sales Tax from 6.3% to 5.3% effective July 1, 2011. The Kansas Department of Revenue estimated a revenue decrease of \$391,057,000 with the proposed reduction in sales tax.

During the 2011 Legislative Session, efforts were made to remove provisions that authorize a sales tax refund for low income Kansans on purchase of food.

The Lawrence Journal reported on December 28, 2011 that Governor Brownback has said that the 2012 Legislative session, which starts January 9, will be one of “the most significant” in decades. He plans to revamp the tax code, which will include lowering individual income tax rates. Brownback argues that Kansas is falling behind the region and nation in economic growth. He believes that lower taxes will lure more business to the state, and he has used the growth of Texas, which doesn't have a state income tax, as an example to follow. The administration has hired Arthur Laffer, one of the architects of President Ronald Reagan's supply-side economics, to provide consulting on the Governor's initiative. A recent Washington Post story on what Governor Brownback was doing in Kansas, quoted Mr. Laffer as saying, “It's a revolution in a cornfield. Brownback and his whole group there, it's an amazing thing they're doing. Truly revolutionary.”¹

Governor Brownback wants to reduce individual income tax and corporate tax rates yet remain revenue neutral which means that state revenue must be found elsewhere to make up for this reduction in state revenue currently provided by individual income tax and corporate income tax receipts.

Arthur P. Hall, Executive Director of the Center for Applied Economics, KU School of Business wrote *A Comprehensive Retail Sales Tax as a Single Tax for the State of Kansas* which proposes an 8% sales tax to replace other state taxes such as individual income tax and corporate income tax. Mr. Hall believes that “such a bold move holds the promise of making Kansas one of the most growth-oriented state tax environments in the nation. He believes that a “well-crafted” sales tax should tax all goods and services uniformly, and believes that all citizens would “contribute” the same proportion of their income based upon the amount that each citizen consumes. Citizens who save or invest would “defer” their portion of the current tax burden into the future.

In his State of the State Address on January 11, Governor Brownback emphasized his desire to reduce the state's reliance on its progressive personal income tax as the core of his proposal. The Institute on Taxation and Economic Policy (ITEP) analyzed this plan as a “roughly revenue neutral tax swap by cutting income tax rates, eliminating a variety of income tax deductions and credits, and making

¹ **Originally published at:** <http://www2.ljworld.com/news/2011/dec/28/brownback-pushes-agenda-taxes-schools-health-care/>

permanent a temporary sales tax rate hike.” Their analysis finds that the bottom 80% of the state’s income distribution would collectively see a tax hike, while the best off 20% of Kansans would see substantial tax cuts. For most middle- and low-income Kansans, the tax break from the income tax rate cuts will be offset by the loss of income tax credits and itemized deductions, as well as a higher sales tax rate. Under Governor Brownback’s plan:

- The poorest 20% of Kansas taxpayers will pay 1.9% more of their income in taxes each year, or an average increase of \$209.
- The middle 20% of Kansas taxpayers will pay 0.3% more of their income in taxes each year, or an average increase of \$146.
- Upper-income families, defined as those with an average income greater than \$1 million reap the greatest benefit saving an average of \$16,933 a year.
- Eliminates Earned Income Tax Credit, Food Sales Tax Rebate, Child and Dependent Care credit.
- This plan would actually increase federal income taxes on Kansans substantially, Because state income taxes can be written off on federal tax returns, by those Kansans itemizing on their federal income tax returns, Kansas itemizers would actually have less state income taxes to write off and would see their federal income taxes increase by about \$76 million overall, under this proposal.

Governor Brownback’s tax reform proposal will actually make the Kansas tax structure more unfair and ensure that low and middle income families pay more, while dramatically decreasing taxes owed by the wealthiest Kansans.

Description Statement of Problem, Need or Value

As the economy has worsened in the past few years, more Americans have signed up to receive food stamps, or what are now called Supplemental Nutrition Assistance Program (SNAP) benefits. In Kansas, the number of households receiving SNAP benefits grew from 181,000 in 2007 to 299,000 in 2011.² The reason for these increases are a result of the recent recession:

- The official poverty level in 2010 was about \$17,000 for a family of three and \$22,000 for a family of four.
- The unemployment rate in Kansas in 2011 was 6.8%.
- In 2011, 54,500 children in Kansas lived with unemployed parents.

Current Retail Sales Tax Imposed on Purchase of Food:

The State of Kansas currently charges the full state sales tax of 6.3% on the retail sales of food. In addition to the state sales tax, local government entities may also charge a sales tax ranging from 1% to 3%.

For citizens who fall within or below the poverty level, the State of Kansas enacted legislation that provides for a refund on sales tax spent on the purchase of food and groceries. A Kansas resident who lived in the state for the full tax year and had an income of \$35,400 or less in 2010 may be eligible for a food sales tax refund. The amount of food sales tax refund depends upon qualified income and is set at a flat amount per family member. For example, if the qualifying income is \$17,700 or less, the food sales tax refund is \$91 for each dependent in the household. If the income is greater than \$17,701, but not over \$35,400, the food sales tax refund is \$46 for each dependent in the household.

The Kansas Department of Revenue, studying historical data, reported that the average household spends 15% of its taxable income on food and food ingredients. The amount of sales tax refund may be too narrow and/or insufficient to give eligible households full relief from sales taxes paid on food purchases. Sales taxes on groceries are regressive, meaning they take a larger percentage of the

² The Recession’s Ongoing Impact on America’s Children: Indicators of Children’s Economic Well-Being Thourhg 2011, Julia B. Isaacs, Brookings

income of poor people than of wealthier people. "A cut in the grocery sales tax is a way to give direct assistance to the poor," said Sujit CanagaRetna, a budget expert for the Council of State Governments.³

Even though sales tax is considered to be a regressive tax and individual income tax a progressive tax, Governor Brownback prefers reducing individual income tax rates and increasing sales tax rates. To counterbalance the Governor's efforts to increase sales tax, the Kansas Legislature proposed removing the retail sales tax from the purchase of food.

In February 2011, Senate Bill 98 was introduced to exempt food sales from the State retail sales tax. This bill would have exempted all food sales except the sale of candy, food from vending machines, and the sales of prepackaged food.

Senate Bill 197 was introduced to phase out retail sales tax imposed by the state on food and food ingredients over a five-year period. Beginning July 1, 2011, retail sales tax on food purchases would reduce from 6.3% to 5.04%. The following years, sales tax on food purchases would be reduced as follows: July 1, 2012 to 4.78%; July 1, 2013 to 3.52%; July 1, 2014 to 1.26%; and finally on July 1, 2015 to 0.0%. The food sales tax refund program would be eliminated in calendar year 2015 to coincide with the elimination of sales tax on food and food ingredients reducing the amount of the refund in proportion to the amount of sales tax reduction year for year. The Department of Revenue estimated that SB 197 would decrease state revenues by \$65,290,000 in Fiscal Year 2012. In following years, the state revenue would decrease by \$127,830,000 in FY 2013, \$229,730,000 in FY 2014, \$312,100,000 in FY 2015, and \$324,500,000 in FY 2016. In responding the Fiscal Note for this bill from the Department of Revenue, The Division of the Budget speculated that the reduction in tax receipts estimated by the Department of Revenue did not account for the potential revenue increases from other tax sources which could occur due to increases of disposable income, economic growth, net migration, or other factors that may result from a lower tax on the sale of food. The Division of the Budget speculated that the increase in tax revenue due to the increase of disposable income have the potential to partially or fully offset the reduction in revenue reported by the Department of Revenue.

Neither of these legislation were enacted during the 2011 Legislative session. It is anticipated that renewed efforts will be made during the 2012 session to both reduce the individual income tax rates and to remove retail sales tax on the purchase of food.

The 2010 Legislature raised the retail sales tax by 1 cent which is scheduled to end June 30, 2012. However, legislation enacted in 2011 requires that 4/10th of that 1 cent remain to fund the new highway plan. Governor Brownback's proposed tax reform will extend this 1 cent sales tax permanently.

The Basic Solution

The LWVK recommends that the purchase of food and drugs be exempt from the tax base. Specifically the recommendation reads:

The League accepts the necessity of the sales tax as a part of a broad-based tax system, but its regressive nature should be relieved by the exemption of food and drugs from the tax base or through a provision of income credits including rebates for those who have no income tax liability. With such reforms an increase in rate would be acceptable; however, an increase in income tax is preferable to an increase in sales tax. The base of the sales tax should be extended to include services other than medical, as long as the tax on specific services conforms to LWVK standards of equity, adequacy, ease of administration, and consistency with economic goals.

This tax relief is particularly important given that in Kansas taxes fall "most cruelly on the poor." A 2006 study by Dr. John Wong from Wichita State University found that the combined impact of the state income, residential property and retail sales taxes means that lower income households in Kansas pay a

³ The Center on Budget and Policy Priorities, WHICH STATES TAX THE SALE OF FOOD FOR HOME CONSUMPTION IN 2009?, Nov. 4. 2009

higher effective tax rate than do higher income households. Those making less than \$10,000 pay an effective tax rate of 32.7% compared to 7.6% for households making between \$150,000 and \$199,999.⁴

Members and supporters of the League of Women Voters Kansas should contact their representatives to demand that retail sales tax should not be used to offset any proposed reduction in individual income tax. If individual income tax rates are to be reduced, as proposed by the Governor, the percentage for each economic strata should be equitable. The Kansas poor should not be required to pay a greater percentage of their income than those citizens who have greater incomes. Retailers sales tax should not be increased in any attempt to make the individual income tax reductions "revenue neutral."

State representatives should support the removal of the retail sales tax from the purchase of food for all Kansas residents. Until such legislation is enacted, the current refund provided to low income Kansans should not be eliminated.

⁴ "Kansas Tax Incidence Study: Who Pays Kansas Individual Income, Residential Property, and Retail Sales Tax," Wichita State University, March 2006.