

WHAT IS A DIVERSE, ADEQUATE, EQUITABLE, EFFECTIVE, EASILY ADMINISTERED TAX SYSTEM AND HOW DO WE ACHIEVE IT?

This year the League of Women Voters is re-examining its position on state finance. This re-examination comes at a particularly appropriate time because Governor Sam Brownback is advocating a drastic shift in the tax structure of Kansas. This article is aimed at helping the average citizen sort through the variety of taxing options and their subsequent repercussions.

The words “diverse,” “adequate,” “equitable,” “effective,” and “easily administered” are the words that are used in the existing LWV position statement on state finance. It’s fair to say that every citizen wants sources of adequate and effective revenue to run our state and provide excellent educations to our children, and it’s also fair to assume that we would appreciate ease of administration clear down to the forms taxpayers must complete. Since the birth of our nation the biggest stumbling block to taxation is equity and fairness. It is interesting to note that a 2009 study by The Institute on Taxation and Economic Policy entitled, “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States” reveals that all states fail the test of equity.

The study reports that six of the ten states with the most regressive tax systems have no state income tax. The other four have income taxes that are “flat,” that is, the income of the wealthiest families are taxed at the same rate as that of the lowest wage earner. These states rely more heavily on higher sales and excise taxes to fund the state’s budget. On the other side of the tax coin, Vermont has a relatively effective progressive income tax and low sales and excise taxes

As poor as the states’ tax structures are in terms of fairness, the income tax is the only tax that even begins to be progressive. Property taxes were found to be regressive, and sales and excise taxes very regressive. An average of the data shows that poor families pay almost eight times more of their incomes, and middle-income families more than four times of their incomes in sales and excise taxes when compared to the rate of the wealthiest families.

It is very important to note that fair taxation is only partially determined by the types of taxes levied. How the state chooses to structure each tax is critical to the fairness of the taxation. The fairness of the income tax, for example, is influenced by (1)using either a graduated or a flat tax structure, (2)using or barring exemptions and tax credits, and (3)allowing or closing tax loopholes (most commonly capital gains tax breaks and deductions for federal income taxes paid) that benefit the wealthiest taxpayers. The most important issue affecting fairness of the sales tax is the treatment of groceries. Taxing food is regressive because lower income families spend the majority of their incomes on groceries. Excise taxes, because they are based on volume rather than price, are, for the most part, the most regressive tax. Property taxes, as they were structured across the states at the time of the aforementioned report, are also a regressive tax—though not nearly as onerous as sales and excise taxes. The fairest property taxes, the study revealed, are those that use strategies such as homestead exemptions or “circuit breakers.”

This information should help you in understanding the effects of the tax proposals which will emanate from the statehouse this legislative session. Your first opportunity to apply the progressive and regressive tax criteria comes in assessing the fairness of Governor Brownback's taxation plan as outlined in his State of the State address. In it, he called for lowering individual income taxes in the highest bracket from a rate of 6.45% to 4.9%, lowering the taxes in the lowest bracket to 3%, and eliminating tax on most small business income. To replace the revenue lost by rate reductions, he has proposed that the state expand the tax base by eliminating tax credits, deductions, and exemptions. Because these provisions are most helpful to low income families, the net effect is to increase income taxes in the low income range and decrease taxes for higher income families. Moreover, the governor has proposed retaining a temporary sales tax which is regressive. According to the Brownback administration, the increased tax burden on low income families is to be compensated by new assistance programs for the unfortunate. These programs, however, remain unspecified. Note that the legislature's plan for tax revision may differ from that of the governor, but both plans will reduce taxes on small business.

Taxation is critical to the economic and social growth of our society. Please do your share in shaping the future of Kansas by being informed and active.

Katha Hurt, February 15, 2012