Bad Chemistry: The Failed Kansas Experiment
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KANSAS BUDGET BASICS
Kansas Budget

General Fund

- Sales and Use Tax
- Individual Income Tax
- Corporate Income Tax
- Severance Tax
- All Other

K-12 Education
Higher Education
Medicaid (Kansas Share)
Other Human Services
Public Safety
General Government

Highway Fund

Fuel Tax
Registration Fees
Sales Tax
Federal Funds
Bond Proceeds

Highway Maintenance
Highway Construction

All Other Funds
FY 2016 State General Fund Revenue by Source

Sales and Use Tax
45.7%

Individual Income Tax
40.3%

Corporate Income Tax
7.2%

Tobacco Taxes - 2.2%
Liquor Taxes - 1.6%
Severance Taxes - 1.2%
All Other Revenue - 1.8%
FY 2016 State General Fund Expenditures

K-12 Education 50.9%
Medicaid (Kansas Share) 17.7%
Higher Education 12.4%

Other Human Services - 9.2%
Public Safety - 6.2%
General Government - 3.4%
Ag. & Natural Resources - 0.2%
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UNPRECEDENTED TAX CHANGES
Small Business Tax Exemption is Uneven with less than 1% of Businesses Getting Enough to Hire a Worker at $12.80 an hour

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost income and unable to deduct from tax return</td>
<td>28.2%</td>
<td>$559</td>
</tr>
<tr>
<td>Businesses with earnings between $0 and $25,000 got a small reduction in taxes</td>
<td>53%</td>
<td>$158</td>
</tr>
<tr>
<td>Businesses with earnings ranging from $25,000 to $500,000 didn’t get near enough back to hire anyone</td>
<td>18.1%</td>
<td>$929 to $9,207</td>
</tr>
<tr>
<td>Less than 1% businesses got enough to hire even a modestly-paid, full-time worker</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Kansas Department of Revenue Business Income Profile, Tax Year 2013
Kansas Taxes in 2016—Who Pays?

The tax cuts enacted in Kansas disproportionately affect the state’s poorest residents. The bottom 40% of Kansas earners see a tax increase, even with the 2012 tax cuts.

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Average Net Tax Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $23,000</td>
<td>$197</td>
</tr>
<tr>
<td>$23,000-$42,000</td>
<td>$66</td>
</tr>
<tr>
<td>$42,000-$68,000</td>
<td>-$29</td>
</tr>
<tr>
<td>$68,000-$107,000</td>
<td>-$316</td>
</tr>
<tr>
<td>$107,000-$205,000</td>
<td>-$983</td>
</tr>
<tr>
<td>$205,000-$493,000</td>
<td>-$3,587</td>
</tr>
<tr>
<td>$493,000 or more</td>
<td>-$24,632</td>
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Top 1% = 17,482 more loaves of bread

Bottom 20% = ~140 fewer loaves of bread

Institute for Taxation and Economic Policy analysis, tax changes between 2012 and 2015.
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THREE KEY TAKEAWAYS
1. Kansas is Broke
State General Fund
Recurring Revenue and Expenditures

Dollars in Millions

Recurring Revenue
Expenditures
Kansas is still living paycheck to paycheck.

$63 million in extra budget cuts and transfers

$430 million tax increase - the largest in Kansas history

Approximately $300 million in sweeps from Kansas programs

Even after all of this.

Source: Kansas Legislative Research Department budget documents

www.realprosperityks.com
2. Kansas’ Economy Sputtering
Kansas Lags Region, Nation on Job Growth Since Tax Cuts

<table>
<thead>
<tr>
<th></th>
<th>'09 to '10</th>
<th>'10 to '11</th>
<th>'11 to '12</th>
<th>'12 to '13</th>
<th>'13 to '14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Growth</td>
<td>✔</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td>N/A</td>
</tr>
<tr>
<td>Gross State Product Growth</td>
<td>✔</td>
<td>✔</td>
<td>❌</td>
<td>❌</td>
<td>N/A</td>
</tr>
<tr>
<td>Private Employment Growth</td>
<td>❌</td>
<td>✔</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
</tr>
<tr>
<td>Private Industry Wage Growth</td>
<td>✔</td>
<td>❌</td>
<td>❌</td>
<td>❌</td>
<td>N/A</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Building Permit Growth Rate</td>
<td>❌</td>
<td>✔</td>
<td>❌</td>
<td>❌</td>
<td>✔</td>
</tr>
</tbody>
</table>

**Key**
- ✔ = Kansas ahead of six-state region*
- ❌ = Kansas behind six-state region

*States include: Arkansas, Colorado, Iowa, Missouri, Nebraska, and Oklahoma

Source: Governor’s Council of Economic Advisors, *Indicators of the Kansas Economy* reports
3. Income Tax Cuts for Some = Other Tax Hikes for All
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Institute for Taxation and Economic Policy analysis, tax changes between 2012 and 2015.
Raising the Sales Tax Makes it Harder for Kansas Businesses to Compete with Neighbors

Raising the sales tax impacts a business' bottom line. Current proposals would increase taxes on businesses by over $130 million, giving Kansas one of the highest sales tax rates in the region and country.

Businesses in States with a Higher Sales Tax Generally Pay more in Sales Taxes as a Part of their Total Tax Bill

<table>
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<th>Sales Tax as a % of All Business Taxes</th>
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<tbody>
<tr>
<td>1. AR 34%</td>
</tr>
<tr>
<td>2. OK 30%</td>
</tr>
<tr>
<td>3. KS 28%</td>
</tr>
<tr>
<td>4. MO 25%</td>
</tr>
<tr>
<td>5. IA 24%</td>
</tr>
<tr>
<td>6. NE 22%</td>
</tr>
<tr>
<td>7. CO 20%</td>
</tr>
</tbody>
</table>

Source: Tax Foundation, Combined State and Local Taxes, 2015
*Based on 0.35% rate increase included in Kansas combined sales tax rate
FIGURE 3
Property Tax Increases Hit Rural Kansas Counties Hard

To offset increasing demand and costs, Kansas counties are raising property taxes just to maintain basic levels of services. Between the year before (2012) and after (2013) the tax cuts went into effect, 67 counties raised property taxes. Rural counties are being hit the hardest as 17 of the 20 counties with the highest increases are rural.

* Indicates Urban County, as designated by the Economic Research Service, USDA

Source: Analysis of data from Kansas Association of Counties Research Report, 2012 and 2013
For More Information

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