

Tax Policy Lessons from Kansas

Economic Perspectives on
State and Local Taxes

Nicholas Johnson

May 2018



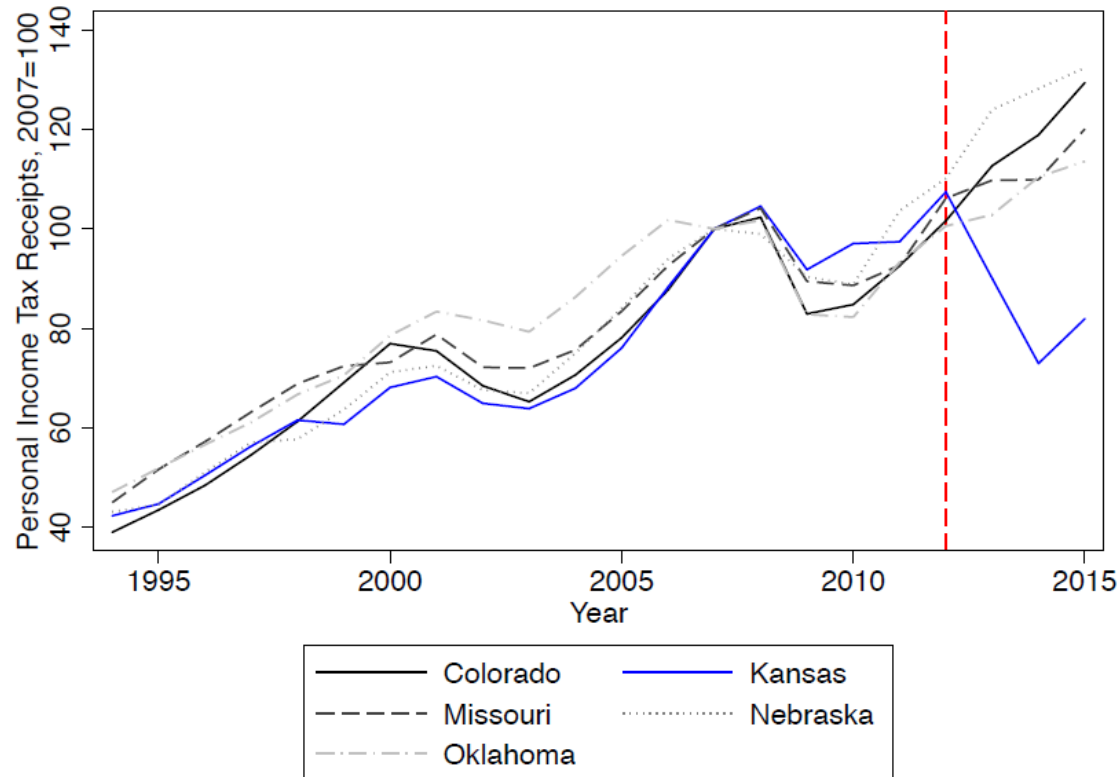


AD ASTRA PER ASPERA

Kansas

Welcomes You!

Personal Income Tax Revenue, Kansas and Surrounding States, 1994-2015



Source: Nelson A. Rockefeller Institute of Government; DeBacker, Jason Matthew and Heim, Bradley and Ramnath, Shanthi and Ross, Justin M., "The Impact of State Taxes on Pass-Through Businesses: Evidence from the 2012 Kansas Income Tax Reform" (September 1, 2017). Available at SSRN: <https://ssrn.com/abstract=2958353> or <http://dx.doi.org/10.2139/ssrn.2958353>



“Our new pro-growth tax policy will be like a **shot of adrenaline** into the heart of the Kansas economy.”

-- Gov. Sam Brownback, 2013

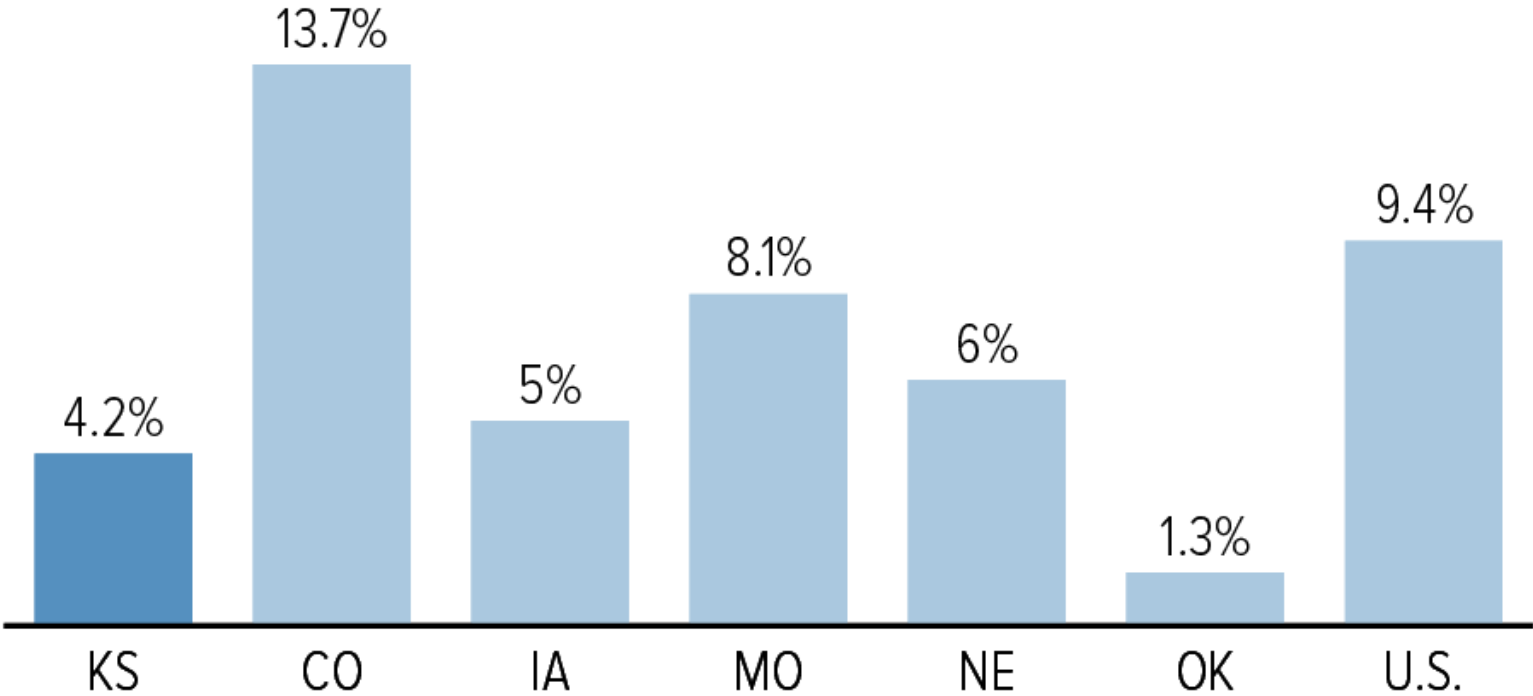
Kansas and Its Neighbors

Table A.2: Average Sector Share of Employment (2010-2011)

Industry	Oklahoma	Nebraska	Missouri	Colorado	Kansas
Agriculture	0.1%	0.1%	0.1%	0.1%	0.1%
Mining, Oil, Gas	3.6%	0.1%	0.2%	1.2%	0.8%
Utilities	0.7%	0.0%	0.7%	0.5%	0.6%
Construction	5.1%	4.9%	4.6%	6.1%	4.9%
Manufacturing	9.8%	11.5%	10.5%	5.9%	13.9%
Trade, Transp, Warehouse	4.6%	5.1%	5.2%	4.6%	5.4%
FIRE, Professional	23.3%	27.3%	25.2%	32.3%	23.4%
Education Services	1.5%	2.4%	3.2%	2.2%	1.7%
Health Care	16.8%	15.4%	16.7%	12.9%	16.8%
Leisure, Hospitality, Other	17.5%	14.8%	16.7%	18.9%	15.1%

Source: BLS; DeBacker et al.

Private-Sector Job Growth: Kansas Lagged Most Neighbors and U.S After Cutting Taxes, 2012-2017

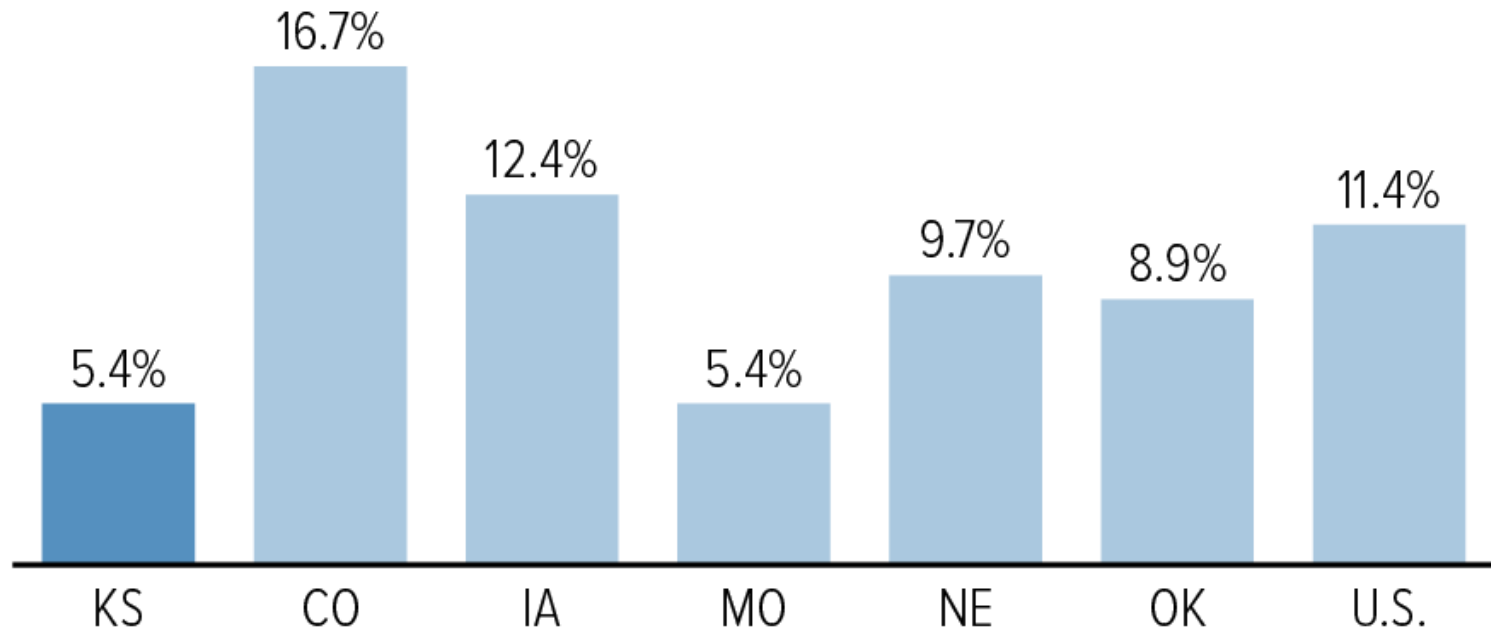


Note: Data cover December 2012 (the month before the tax cuts took effect) to May 2017 (the month before they were scaled back).

Source: Bureau of Labor Statistics, 2017

Economic Growth: Kansas Lagged All Its Neighbors and U.S. After Cutting Taxes

Growth in inflation-adjusted private-sector gross domestic product, 2012 -2017

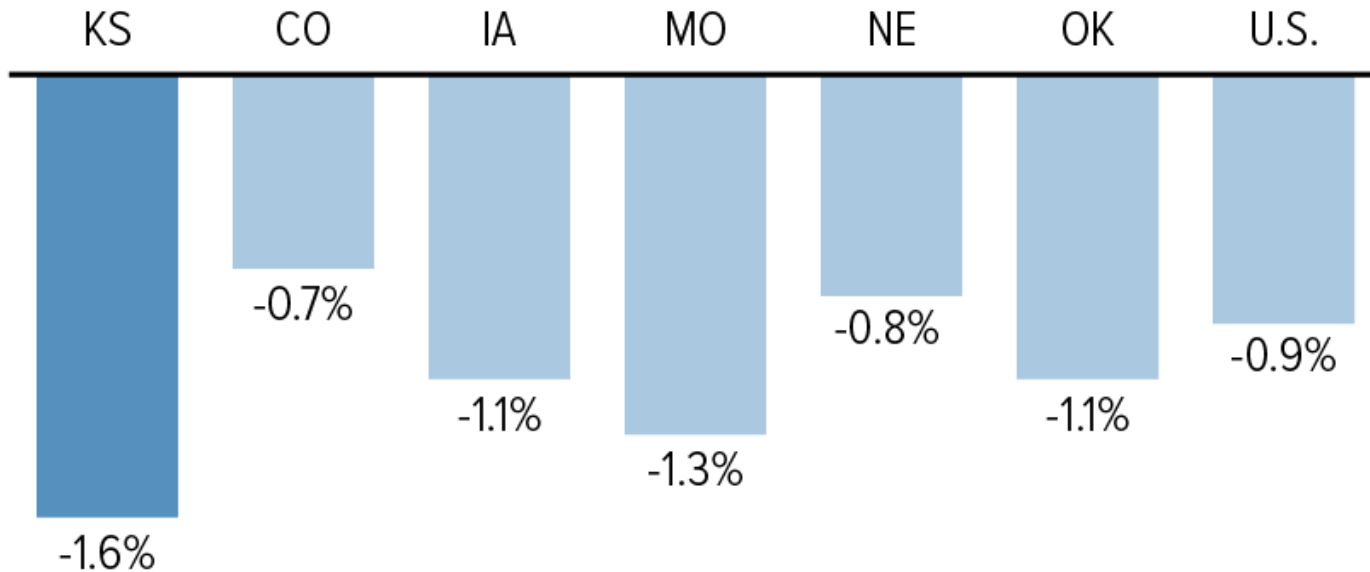


Note: Data cover fourth quarter 2012 (the quarter before the Kansas tax cuts took effect) to second quarter 2017 (the quarter in which the tax cuts were scaled back).

Source: Bureau of Economic Analysis, 2017

Labor Force Participation: Kansas Fell More Than All Neighbors and U.S. After Cutting Taxes

Percent change in labor force participation rate among adults aged 20-64, 2012 - 2015

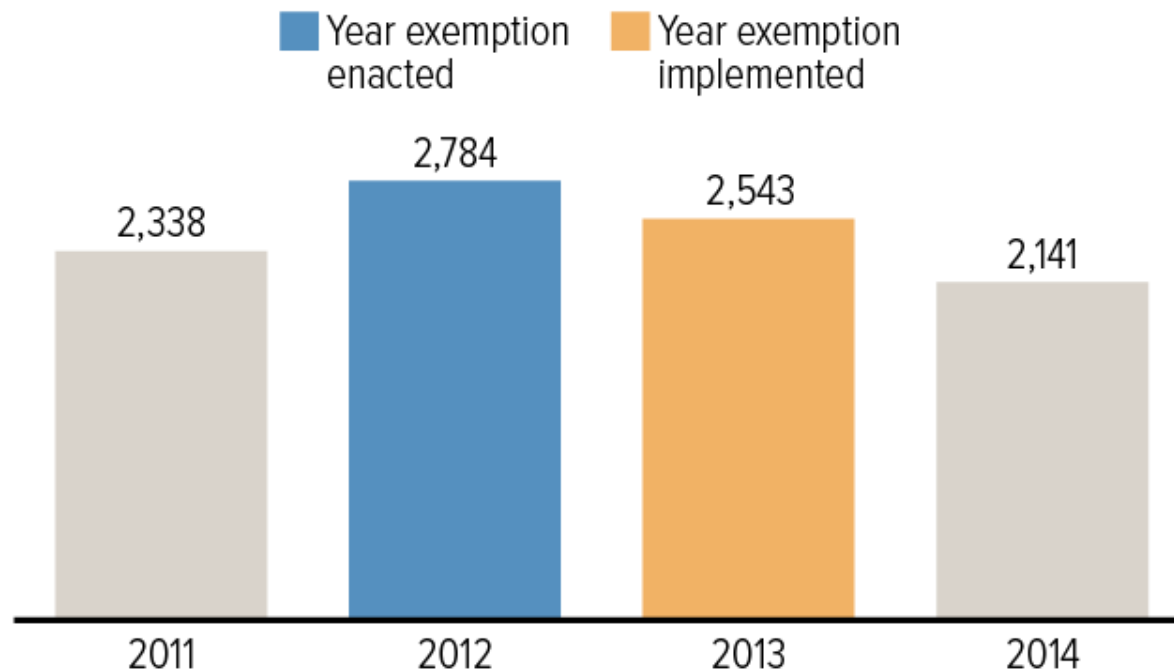


Note: Labor force participation = share of adults who are working or looking for work.

Source: American Community Survey, 2017

Number of Kansas Pass-Throughs Rose Only Temporarily After Tax Exemption Enacted

Number of new Kansas pass-through businesses created

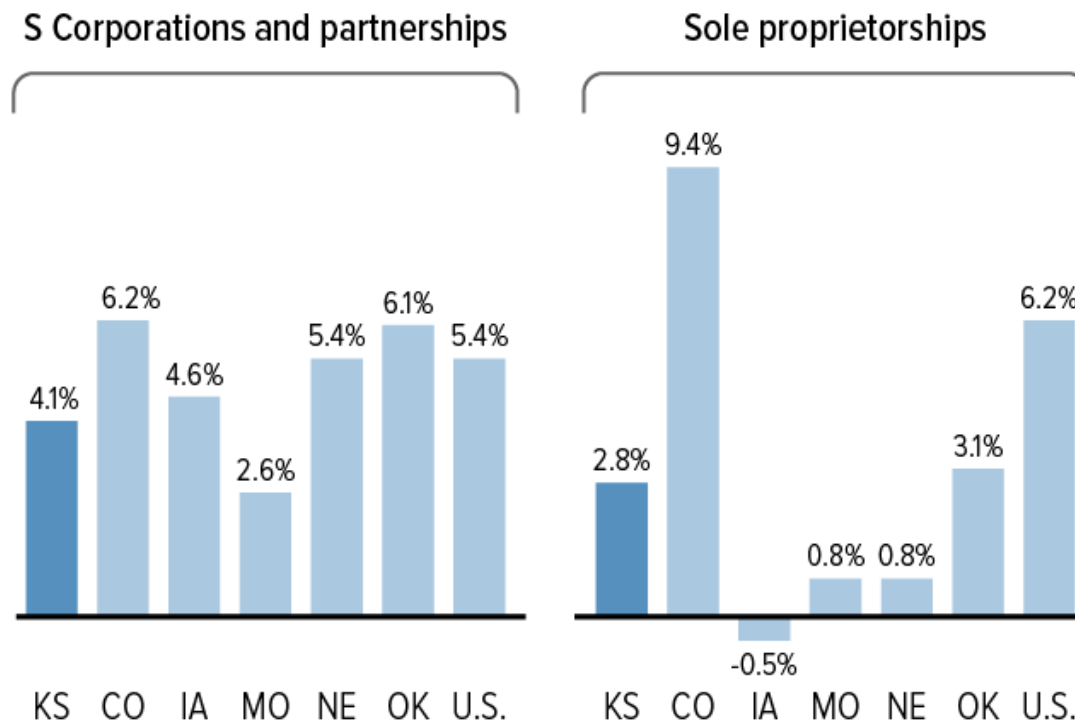


Note: Excludes sole proprietorships.

Source: Kansas Department of Revenue, "Governor's Consensus Revenue Estimating Working Group Final Recommendations," October 4, 2016

Growth in New Business Owners: Kansas Lagged Most Neighbors and U.S. After Cutting Taxes

Growth in number of federal tax returns reporting income from pass-throughs, 2012 -2015



Note: Pass-through businesses are firms whose owners report their profits on their Individual Income tax returns. Includes limited liability companies (LLCs).

Source: Internal Revenue Service, Statistics of Income

“
The real story of the Kansas Tax Cuts
and what other states can learn from what happened in Kansas
—Tim Huelskamp, PhD, President of The Heartland Institute

What Was *Really* the Matter with the Kansas Tax Plan

The Undoing of a Good Idea



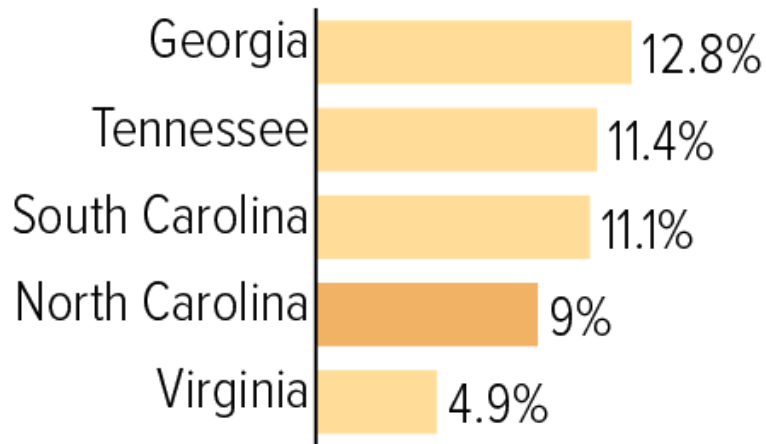
By Dave Trabert
with Danedri Herbert

Foreword by former US Senator Tom Coburn

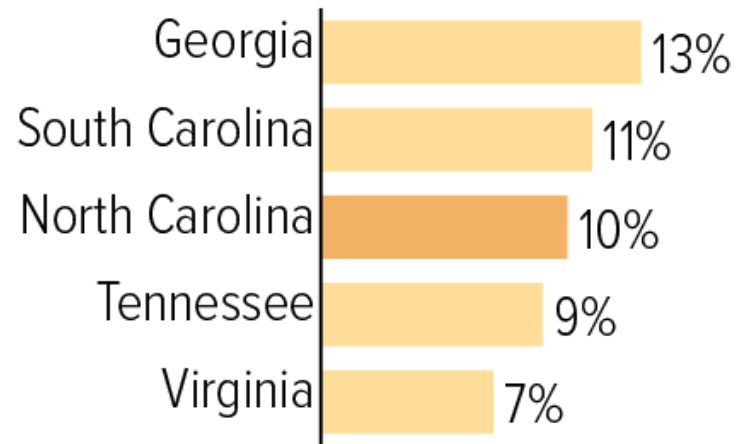


North Carolina Economic Growth Since Cutting Taxes, Compared to Neighbors

Growth in private-sector gross domestic product, Oct. 2013-Sept. 2017, adjusted for inflation



Growth in private-sector jobs, Dec. 2013-Dec. 2017



Source: Bureau of Economic Analysis and Bureau of Labor Statistics

A Blueprint for Building Thriving State Economies

Smart state fiscal policies can help create jobs now, boost incomes, promote equity, and prime states for long-term prosperity.



1 Unleash Potential by Investing in Education and Health

- Implement proven school reforms**
 Well-funded public schools help kids get a good start in life — especially when funding targets investments shown to produce better outcomes, like early learning, smaller classes, and higher teacher quality. These investments also improve the economy. For example, high-quality preschool improves not only children's academic performance but also, over time, the quality of a state's workforce and jobs.
- Expand access to higher education and job training**
 States with a better-educated workforce tend to have faster economic growth. More public dollars for public colleges and universities and need-based financial aid would help make higher education more accessible. Job training focused on the skills local employers need also produces substantial payoffs.
- Expand access to affordable health care**
 Health coverage lets families and individuals get needed preventive and ongoing health care, which keeps them healthier and more productive as workers.



2 Launch Public Infrastructure Projects for Jobs and Equity

- Build and restore roads, public transit, and water systems**
 By reversing the serious decline in vital public infrastructure, states can create jobs now and improve economic growth and job quality in the long run. Infrastructure spending also can improve racial and economic equity. Often the communities most in need of upgraded schools and water systems, for example, are predominantly lower income and of color.
- Repair and build schools**
 Neglect of K-12 schools — which has especially affected those in economically struggling communities — hurts students' health and school performance and weakens the country's long-term prosperity. Reversing this decline is key to promoting full economic recovery and creating good jobs, particularly for historically neglected communities.



3 Boost Household Incomes

- Raise working families' earnings**
 State-level Earned Income Tax Credits (EITCs) help working families earning low wages meet basic needs and build on the federal EITC's well-documented, long-term positive effects on children. States can also promote family economic stability by raising their minimum wage. Both help to ensure that low-paid workers — including women and people of color, who are likelier to earn low pay — share in a state's economic gains.
- Buoy individuals and families facing major barriers to work**
 Many families aren't paid enough to get by, are unemployed, need to care for a sick child, or face a crisis such as fleeing an abusive relationship. Many also face serious mental or physical health problems or chronic illness. States should maintain cash assistance and other supports like child care and transportation subsidies to help these families meet basic needs and find and keep jobs.
- Reduce the number of adults and youth behind bars**
 Smart criminal justice reforms can reduce the high costs of over-incarceration for individuals and families — especially in communities of color — and state budgets.
- Let immigrants contribute fully**
 States should leave immigration enforcement to federal agencies and adopt more inclusive approaches that bring unauthorized immigrants into the mainstream economy.
- Get rid of ineffective, special-interest tax breaks**
 States should regularly monitor and evaluate economic development subsidies and eliminate those that are ineffective. More broadly, states should scrutinize the billions of dollars they spend each year in tax credits, deductions, and exemptions. For the most part, these "tax expenditures" go unexamined.
- Modernize state sales taxes**
 States can halt the erosion of their sales taxes and improve their long-term ability to invest in state priorities by broadening the sales tax to include more services, which make up a growing share of consumption. States should also ensure that businesses collect sales taxes on online purchases.
- Close the top to pay their share**
 Households with the highest incomes pay the least in state and local taxes, measured as a share of income. Policymakers can reduce income and property taxes, which is especially pronounced by race and ethnicity, by raising tax rates for the highest-income households and scaling back deductions and exemptions that disproportionately benefit them.
- Stop tax avoidance and resource extraction**
 Households often bear the brunt of the effects of carbon pollution, particularly those in communities of color, which are disproportionately burdened by taxes on carbon pollution. States can design policies to generate enough revenue to offset the hit to households from higher energy prices and leave plenty for other priorities.

Nicholas Johnson

johnson@cbpp.org

@NickCBPP

www.cbpp.org

202.408.1080

