TULSA WORLD

Kansas tax cuts raise budget concerns

By: Rand Krehbiel – March 4, 2013

Last year, Kansas did what Oklahoma talked about. It slashed personal income tax rates, from a top bracket of 6.45 percent to 4.9 percent, and eliminated income taxes altogether for nearly 200,000 farms and businesses.

Kansas' bold step was part of a broader attack against the income tax. At best, it is described as an impediment to economic growth. At worst, the income tax is seen as an outright evil that penalizes financial success and enterprise.

Ultimately, proponents argue, lower tax rates lead to more economic activity and more efficient government.

For Kansas, the immediate result of income tax reform has been a $700 million hit to a $6 billion general fund, which projects out to a revenue loss of $2.5 billion through 2018. In January, Bloomberg reported Kansas' uncertain budget outlook had hurt its standing in the bond markets.

Gov. Sam Brownback and his allies aren't finished, either. They're asking for more reductions, even if it means extending a temporary state sales tax and eliminating some popular tax deductions and credits, including the one for mortgage interest and a sales tax rebate for food.

Eventually, they want to eliminate the income tax altogether.

But what one state does affects all others, especially those adjoining it. Oklahoma Gov. Mary Fallin is trying to sell a quarter-point reduction in Oklahoma's personal income tax "to keep up with surrounding states."

At least some legislative leaders, though, say they do not want to follow Kansas' leap of faith into the budgetary void. For all the assurances that lower taxes will eventually increase revenue, not reduce it, Kansas is venturing into uncharted territory.

State finances are complicated, normally depending on a combination of corporate and personal income taxes, property taxes, sales taxes and a variety of fees, licenses and assessments. What is paid for by state government in Oklahoma may be paid for at the local level in Kansas, or vice versa. It is generally accepted that the best way to compare state tax burdens is by considering all state and local revenue combined.

But the focus for the past several years has been on the income tax, in large part because of the influence of well-funded advocacy groups such as the Americans for Prosperity and the Cato Institute, both with links to Wichita's politically active Koch brothers, and the American Legislative Exchange Council, better known as ALEC.

Brownback's current and proposed tax cuts reduce Kansas' projected revenue by almost 20 percent over the next five years, on top of an 18 percent actual decline during the Great Recession.

"Budgets have been axed through the recession," said Annie McKay of the Kansas Center for Economic Growth, which opposes Brownback's tax policies. "We're underfunded in many ways. I really don't know where you could pull the money from."

McKay's organization says education spending will drop another $216 per student on top of a $745 decline from 2008 to 2013.

Further complicating matters, a state court ruled last month that $440 million must be put back into education.

Brownback's projected budgets show education spending virtually unchanged over the next three years, but he achieves that by transferring almost $100 million from the state highway fund in 2014 and 2015.

Dave Trabert, president of Kansas Policy Institute, which generally supports Brownback's policies and is a major proponent of tax cuts, said schools and other parts of state government aren't being honest.

"When a government is looking at spending less money, they almost always go to a service cut," Trabert said. "Some of that, frankly, I think is by design, to elicit sympathy. 'You don't really want us to do this, do you?' They never look at ways to operate more efficiently.

"The concern about whether we're going to have less service is legitimate. The answer is: Only if government chooses to do it that way."

Trabert said tax reform, at least as Kansas Policy Institute envisions it, "is about one thing and one thing only: economic growth and job creation.

"Discussions of tax reform tend to gravitate toward who should pay what," he said. "That's not what tax reform is about."

McKay points out that income tax-free Texas has some of the highest poverty rates in the nation and, at last count, had more low-wage workers than any other state in the union.

"You can't tell me that's the quality of life that Kansas wants," McKay said. "You want more people earning less money as you continue to cut state budgets so they can't access the support they need to shore themselves up out of poverty?"

The Kansas tax cuts approved last spring did not kick in until Jan. 1 of this year, so the tangible impact - good and bad - has yet to be fully felt. Trabert says business activity is already picking up - but it is picking up in other states, too.

"Our expectations are that it's going to take time for the biggest benefits to kick in," he said.

Historically, Kansas has been a higher-tax state than Oklahoma and still has a 6.3 percent (compared to Oklahoma's 4.5 percent) state sales tax. The tax was raised by one full percentage point in 2010, with four-tenths earmarked for transportation. Sixth-tenths goes to the general fund and expires this summer.

But now Brownback wants to extend the temporary tax, and his budgets call for using some of the earmarked transportation money elsewhere, including education. Some conservatives are balking at that idea and at reworking the income tax code in a way that might cause some Kansans to pay more.

"A lot of these options are going to be unpopular in various ways," McKay said. "The quality of life in Kansas has always been great. We've always enjoyed strong schools, good roads, infrastructure, and we don't want to see that go."

Trabert says sales taxes may have to rise eventually but not immediately. "There is a lot of support in terms of the long-term vision," he said. "The disagreement is on how we get there."