A Flat Tax Would Only Worsen Kansas' Budget Crisis

Kansas CENTER FOR ECONOMIC GROWTH

YEAR	TAX BRACKET	TAX RATE
2012 (Pre-Brownback Plan)	$0 - $15,000 $15,001 - $30,000 $30,001 and up	3.5% 6.25% 6.45%

YEAR	TAX BRACKET	TAX RATE
2017 (Brownback Plan)	$5,000 - $15,000 $15,001 and up	2.7% 4.6%

YEAR	TAX BRACKET	TAX RATE
HB 2385 (Proposed Flat Tax)	All earners	3.9%

Governor Sam Brownback's 2012 plan to phase out the state income tax created an unprecedented fiscal crisis for Kansas. Some options presented for addressing this crisis would "flatten" Kansas' income tax and require all Kansans to pay the same income tax rate, regardless of how much they earn.

Most flat tax proposals (such as House Bill 2385) create far more problems than they solve. A flat tax would shift even more of the state's tax burden onto those who can least afford it while stunting economic growth and failing to generate the revenue necessary to end Kansas' repeated budget shortfalls.

Lawmakers must restore fiscal stability to Kansas in 2017, especially since the Kansas Supreme Court ruled that public school funding is unconstitutionally low. It may sound appealing in its simplicity, but a closer look reveals that the flat tax fails every measure of commonsense tax reform.

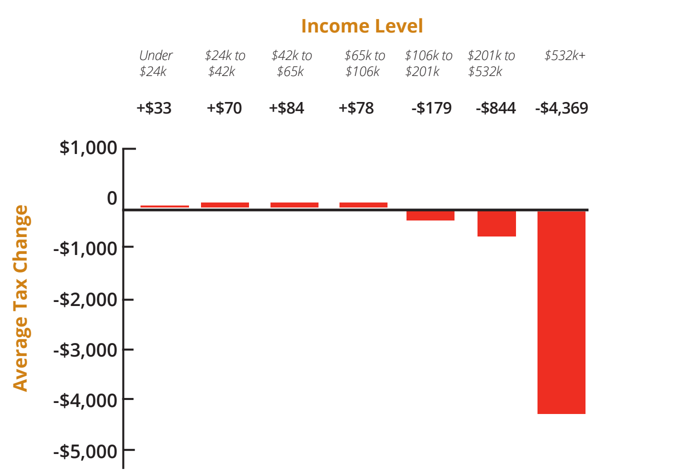
"Flat" Does Not Equal "Fair"

Details vary from plan to plan, but the driving tenet behind a flat tax is consistent: eliminate the state's graduated income tax structure (which currently divides Kansans into two income tax brackets and applies a higher income tax rate for higher earners), and replace it with one "flat" rate. This may sound appealing in its simplicity, but "simple" does always mean "smart," and - when it comes to the tax code - "flat" does not equal "fair."

Governor Brownback's signature tax policy created a long list of unintended consequences, but the extent to which it flipped Kansas' tax code upside down proved to be one of the most serious. Under his plan, the state's top 1% of earners received an average tax cut of nearly $25,000, while Kansans earning less than $25,000 per year received an average tax increase of nearly $200.

The flat tax proposed under House Bill 2385 would hike taxes on most Kansans while giving yet another tax cut to a majority of the wealthiest. In fact, those earning over $530,000 a year would receive an average tax cut of $4,300 while someone making less than $24,000 would absorb yet another increase.[1] This is exactly what happened under the original Brownback plan. Working Kansans already pay a bigger share of their income in taxes than the richest in the state. A flat tax doubles-down on an already upside down system because most flat tax proposals require the elimination or reduction of key credits and exemptions that help level the playing field for many Kansas families.

Flat Tax Proposal in House Bill 2385 is Just Another Tax Cut for the Richest Kansans



Source: Institute for Taxation and Economic Policy Microsimulation Model, March 2017

“Flat” Does Not Equal “Fiscally Responsible”

Governor Brownback’s failed tax experiment created a projected $900 million budget shortfall in 2018. The 2018 revenue estimate is $5.536 billion. Meanwhile, delivering the current level of services in 2018 is projected to cost $6.468 billion. Bear in mind that figure does not account for any payback for a Fiscal Year 2017 loan. Nor does it include any additional investment necessary to comply with the court’s order to put more dollars back into Kansas classrooms. In total (absent hundreds of millions more in budget cuts), Kansas faces a minimum structural revenue gap of $1.4 billion. A tax reform package must close this minimum gap to put Kansas back on sound fiscal footing.

A flat tax will make Kansas’ fiscal problems even worse. House Bill 2385, for example, does not raise the necessary revenue to fill the structural gap. It raises only $82.5 million, barely scratching the surface of the state’s $1.4 billion budget hole. A true 3.9% flat tax would actually reduce state revenues over $40 million annually.

“Flat” Does Not Equal “Forward”

Tax policy must stimulate both economic growth and shared prosperity in order to move Kansas forward. Kansas cannot grow jobs and build a stronger economy with an upside down tax code that fails to require all Kansans to chip in fairly. When Kansans can’t afford to make ends meet, fewer dollars are spent in local communities, which only worsens the state’s budget problems.

A flat state income tax would also siphon off important resources that underpin a sound state economy. Higher education will continue to be a target of cuts, making college even more unaffordable. Roads will continue their path to disrepair. Kansas’ most fundamental engine of economic growth, a quality public K-12 education system, would remain underfunded. Adopting any flat tax plan would prevent the legislature from generating the necessary resources to comply with the Kansas Supreme Court ruling to more adequately fund Kansas schools. A flat tax will prevent lawmakers from meeting these basic needs that move Kansas forward.

A Flat Tax Falls Short

The Kansas tax code should be fair and stable. By asking for more from those with the least while adding millions more to the state’s structural revenue deficit, a flat income tax would result in a significant step away from both of those objectives.

Lawmakers must champion tax reform that strengthens Kansas’ ability to invest in the future. ***A flat tax will not solve Kansas’ current fiscal problems and will limit the state’s ability to provide crucial programs and services.*** It equates to yet another tax break for the wealthy, asking hardworking citizens to bear even more of the burden, and jeopardizes investments in schools, roads, and public health and safety that build a strong Kansas economy.

Kansas Center for Economic Growth

(785) 783-7370 | www.realprosperityks.com | March 2017

[1] Institute for Taxation and Economic Policy analysis of House Bill 2385, March 2017.