

Title: **Economic gurus warn KS of federal tax implications**
 Author: By The Kansas Center for Economic Growth
 Size: 101.06 column inches
 Iola, KS Circulation: 3720

Economic gurus warn KS of federal tax implications

'Don't count your chickens before they hatch'

By The Kansas Center
for Economic Growth

On April 7, the Kansas Senate passed Substitute for House Bill 2228. On its surface, this bill addresses issues from the federal tax plan passed in December. However, it also includes extremely fiscally irresponsible provisions that will cost the state at least \$494 million over the next five years — revenue that Kansas cannot afford to forgo at this time.

The bill includes several provisions that are meant to align Kansas' tax code with the recently passed federal plan, capturing revenue that would otherwise be lost. Many of the assumed "pay fors" are related to conformity with the international provisions of the federal plan — provisions that, according to the Department of Revenue, have great uncertainty:

"Amended and new federal statutes outlined in the [federal tax bill, the Tax Cuts and Jobs Act (TCJA)] regarding repatriation and international income do not clarify how international income and expenses are recognized on the federal return. This creates uncertainty in how Kansas statute conforms to these international provisions. Such uncertainty makes estimation of changes in Kansas tax revenues not possible to quantify."

"Results given in this report should be considered as rough approximations and

not a fiscal note."

"The total impact to Kansas tax revenues stemming from the TCJA changes to the federal tax code is roughly \$140 million by fiscal year 2019."

The truth is, we don't know what the revenue effect of federal tax reform on Kansas will be; the Kansas Senate approved this bill with no fiscal note. There are simply too many unknowns, and they won't be resolved soon. In particular, little consideration was given to the very real possibility that proposed "pay-fors" in the bill will not generate revenue any time soon. Corporations will press to have them repealed and, failing that, challenge them in court.

This is not to say that Kansas lawmakers should not at a later date seek to enact legislation to capture this potential revenue, rather that lawmakers should not assume this revenue will be available anytime soon.

Other states, such as Georgia, that have passed legislation based on the assumption of revenue from state attempts to conform to international provisions were challenged immediately by corporate interests, leaving the legislature without a pay-for after the tax plan passed. More generally, the national corporate community has indicated it intends to challenge in court the con-

stitutionality of state conformity to these international provisions.

Over the next year, lawmakers should track the effects of federal tax reform on Kansas taxpayers. They can return next legislative session ready to examine the impact and possible legislation addressing it.

Our state has significant needs. From enhanced funding for schools to investing in infrastructure, health care, early education, and thriving communities, we are on the road to recovering from the Brownback tax plan together. As we've said, that journey will take time.

Last year's Senate Bill 30 phased back in deductions for medical expenses, mortgage interest and property taxes because lawmakers understood that we couldn't afford it any other way. Additionally, Senate Sub HB 2228 includes an entirely separate new tax policy — an increase in the state standard deduction — that will significantly reduce income tax revenue.

Lawmakers should reject calls for additional income tax changes and instead concentrate on the state's laundry list of needs to address as Kansas recovers from five years of failed tax policy. Senate Substitute for HB 2228 would extend that recovery period. Instead, lawmakers should remember these priorities and opportunities

for our state as any potential revenue reached the state as a result of federal changes:

* Kansas schools are underfunded, and a court decision on the funding levels proposed in the recent school finance bill won't be determined until later this spring. Lawmakers should quickly correct the error in Substitute for SB 423 when they return for the veto session.

* State Highway Fund transfers are ongoing, and lawmakers must develop a plan to fully support our state's infrastructure system. A good start would be to develop a plan to fund the 23 delayed T-Works projects, at a cost of approximately \$503 million according to Economic Lifelines.

* After years of delayed payments, Kansas must again meet its obligations to KPERS.

* More than \$63 million was cut from Kansas' higher education budget during the Brownback tax experiment, resulting in increased tuition costs for Kansas students. The Kansas Regents have requested a restoration of \$24 million during the 2018 legislative session.

* Lawmakers must begin to pay back the loan from the Pooled Money Investment Board after borrowing from it in previous years.

* State agencies have been through nine rounds of bud-

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get cuts. Foster children are sleeping in offices overnight (and 70 children were reported missing from the foster care system.) Our corrections officers are working overtime and the Kansas Bureau of Investigations has a shortage of agents while vio-

lent crime is rising. It's time to reinvest in the state's core services.

Without a fiscal note and with many competing demands on Kansas' budget, lawmakers should reinvest any revenue as a result of federal tax reform in our state's recovery from failed

tax policy — not spend it on another reckless experiment.

WE URGE lawmakers to oppose Senate Substitute for House Bill 2228. Without a certain revenue source to pay for such costly changes, Kansas simply can't afford to







do otherwise.

— *The Kansas Center for Economic Growth is a non-profit, nonpartisan organization that conducts research and analysis to promote balanced state policies that help ensure all Kansans prosper.*

PAYING THE PRICE

Senate Substitute for HB 2228 would cost a half-billion dollars over five years. Instead of this unaffordable tax plan, lawmakers should work to rebuild Kansas after years of brutal cuts and disinvestment.

OUR STATE'S NEEDS ARE GREAT

- 
\$503
 MILLION
 - FUND 23 UNFINISHED T-WORKS PROJECTS
- +
- 
\$194
 MILLION
 - MEET KPERS OBLIGATIONS
- +
- 
\$118
 MILLION
 - PAY BACK POOLED MONEY INVESTMENT BOARD LOAN
- +
- 
\$112
 MILLION
 - FUND EDUCATION AT LEVELS SPECIFIED IN SB 423
- +
- 
\$70
 MILLION
 - FUND HUMAN SERVICES CASELOAD ANNUAL INCREASE
- +
- 
\$24
 MILLION
 - BEGIN HIGHER EDUCATION FUNDING RESTORATION

\$1.02 BILLION

