

# *The Kansas Economy & Current Tax Proposals*

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January 29, 2021

**KU** INSTITUTE FOR  
POLICY &  
SOCIAL RESEARCH  
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Happy Kansas Day—Our 160<sup>th</sup>!



# Overview

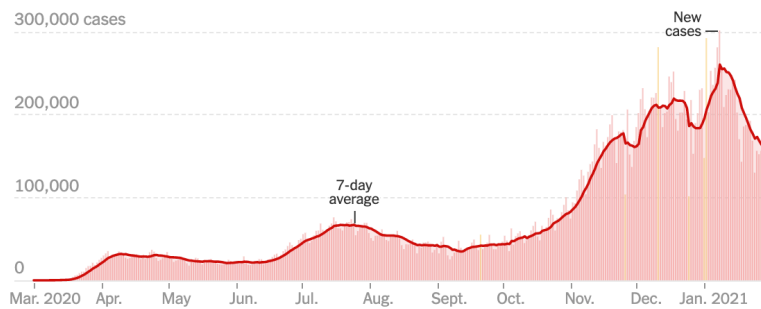
- Update on COVID-19 in Kansas and the United States
- What's happened to the US & Kansas economies so far?
- Kansas Tax Policy 2021—A Work in Progress
  - Evaluate Tax Council Proposals
  - Evaluate SB-22 and HB 2021
- COVID continues to slow the economic recovery.

# We Have Exceeded 25.6 Million Cases & 429,000 Deaths

## Coronavirus in the U.S.: Latest Map and Case Count

Updated January 28, 2021, 8:06 A.M. E.T.

[Leer en español](#)



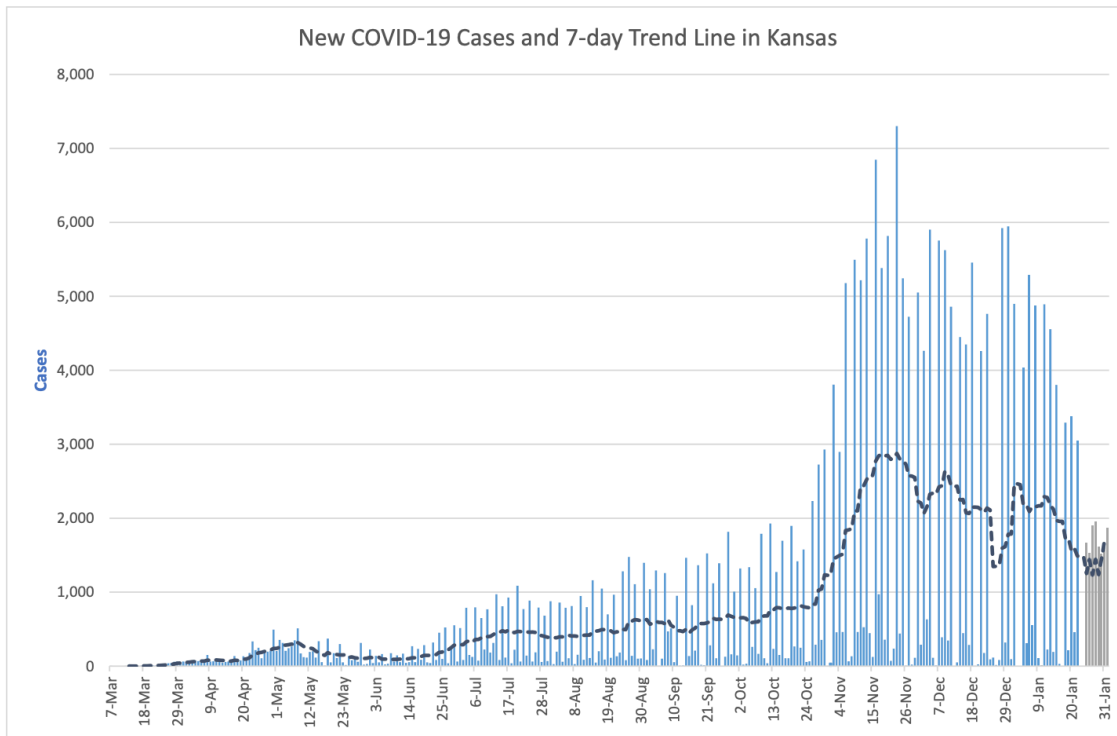
	TOTAL REPORTED	ON JAN. 27	14-DAY CHANGE
<b>Cases</b>	<b>25.6 million+</b>	155,629	-34% ↘
<b>Deaths</b>	429,312	4,101	-1% ↔
<b>Hospitalized</b>		107,444	-14% ↘

■ Day with reporting anomaly. Hospitalization data from the CovidTracking Project; 14-day change trends use 7-day averages.

- In the past week we've averaged 157,000 cases per day.
- This is a decrease of 17% compared to last week.
- 4,101 deaths on Jan. 27th.



# Kansas Daily Cases Are Decreasing

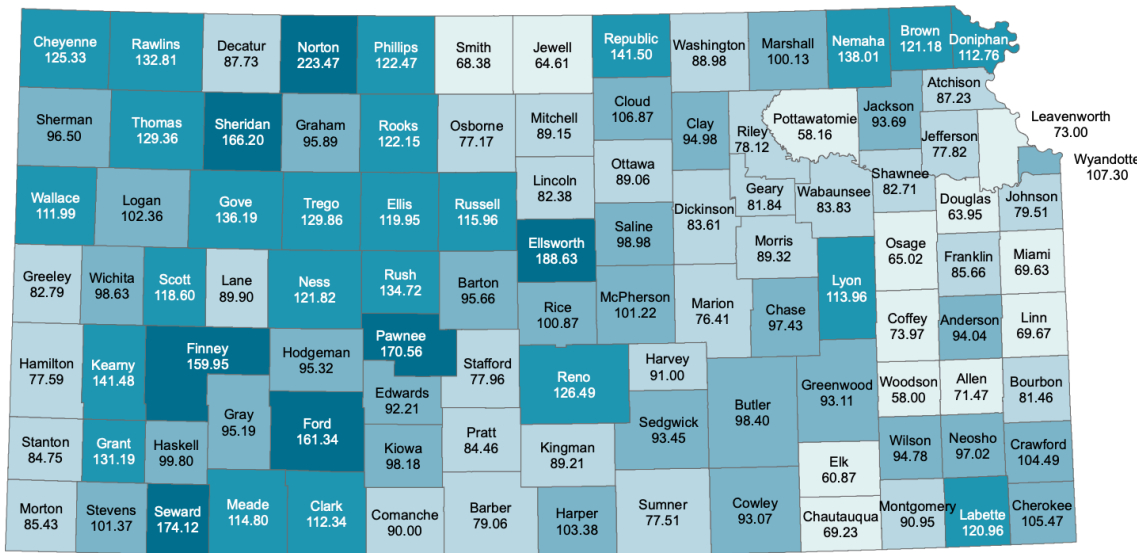


Source: Institute for Policy & Social Research, The University of Kansas; cases (blue) from the New York Times and projected cases (grey) from The University of Kansas Medical Center.

- The 7-day moving average of new cases trended down in the past week.
- Cases are decreasing:
  - Cases are forecast to remain at a high level.
- Kansas has had 275,545 cases and 3,718 deaths

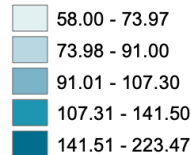
# Case Rates by County

COVID-19 Cases per 1,000 People in Kansas, by County as of January 24, 2021



Source: Institute for Policy & Social Research, The University of Kansas; data from The New York Times and U.S. Census Bureau.

Cases per 1,000 people



• Darker colors indicate that these counties have higher case rates:

- Ford, Seward, and Finney Counties have case rates that are > 159 per 1,000
- Douglas, Sedgwick & Johnson Counties have case rates of 63–93 per 1,000
- Leavenworth & Wyandotte Counties have case rates of 73–107 per 1,000

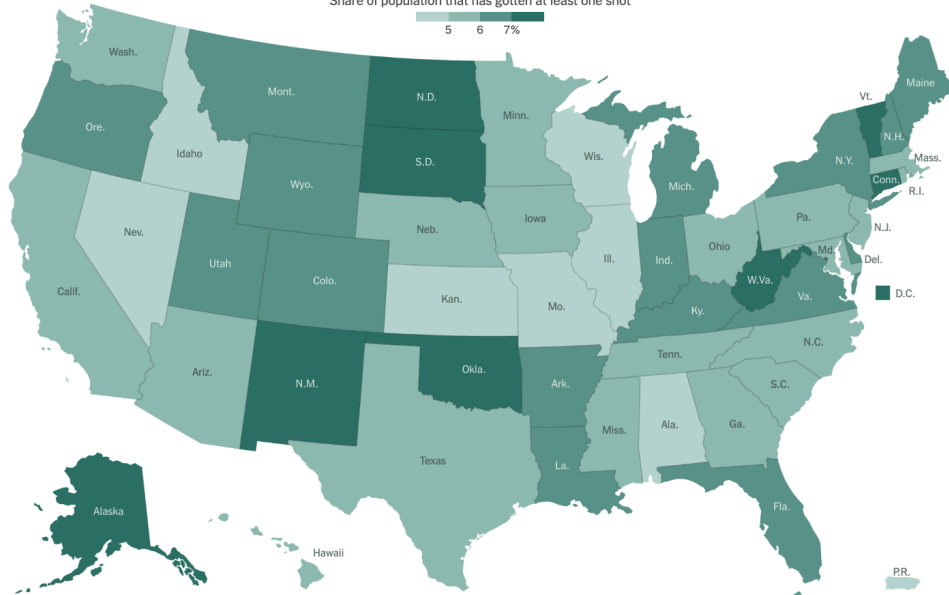
Source: New York Times & US Census Bureau

# Vaccine Rollout Has Been Slower in Kansas

## See How the Vaccine Rollout Is Going in Your State

By The New York Times Updated Jan. 27, 2021

Share of population that has gotten at least one shot



Source: Centers for Disease Control and Prevention

7 Donna K. Ginther, PhD

Source: New York Times

- 20.7 Million Americans have received one or both vaccine doses.
- 6.2 percent of the population
- Only 4.8 percent of Kansans have received at least one dose.


# COVID Challenges Remain

*The Washington Post*

Health

## Coronavirus variant first seen in South Africa identified in South Carolina

- New variants from UK and South Africa are more virulent (perhaps 50% more)
- According to January 28<sup>th</sup> *Washington Post*, Novavax vaccine:
  - 89% effective against UK variant (good news)
  - 49% effective against South African variant (not good news)
  - The company also noted that a third of the participants in its South African trial appeared to have already been infected with the original strain of coronavirus, based on antibodies in their blood when they were vaccinated. Some of those people became infected again, according to the company, suggesting natural immunity generated by an infection might not fully protect against the new variant.

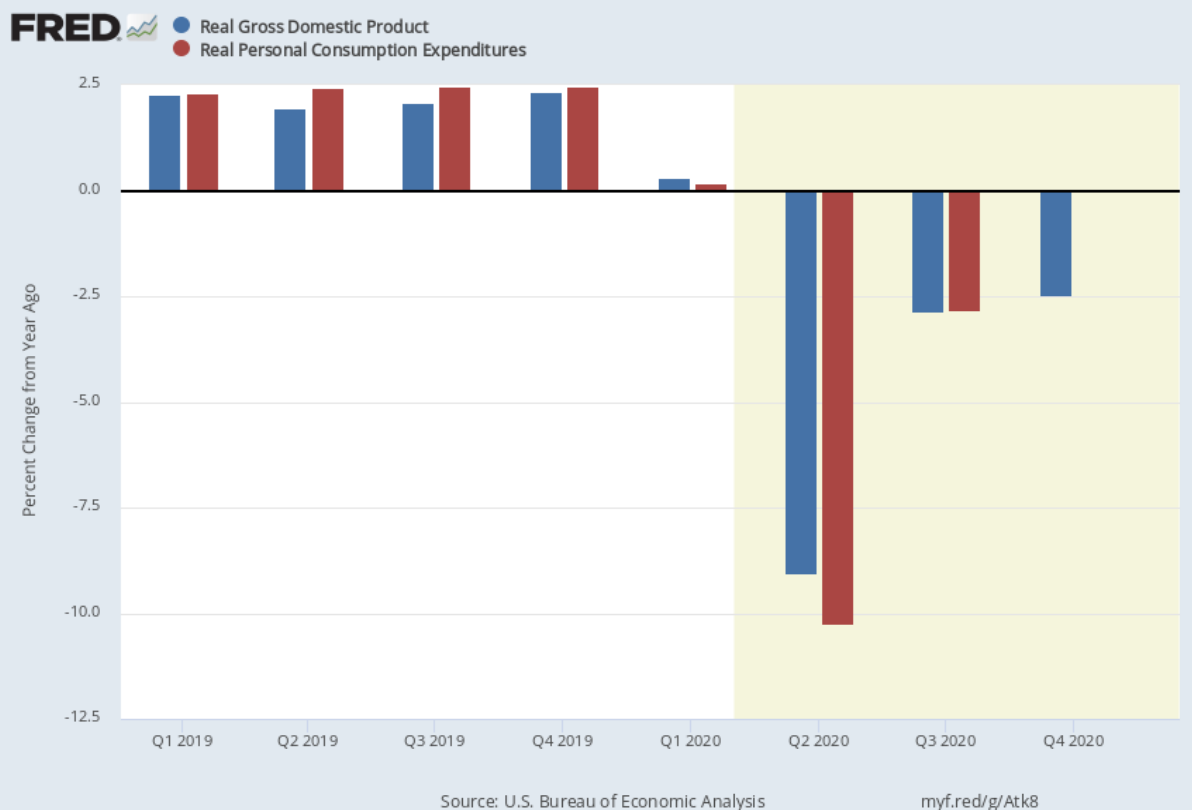


# COVID-19 and the US & Kansas Economies

A Stalling Recovery

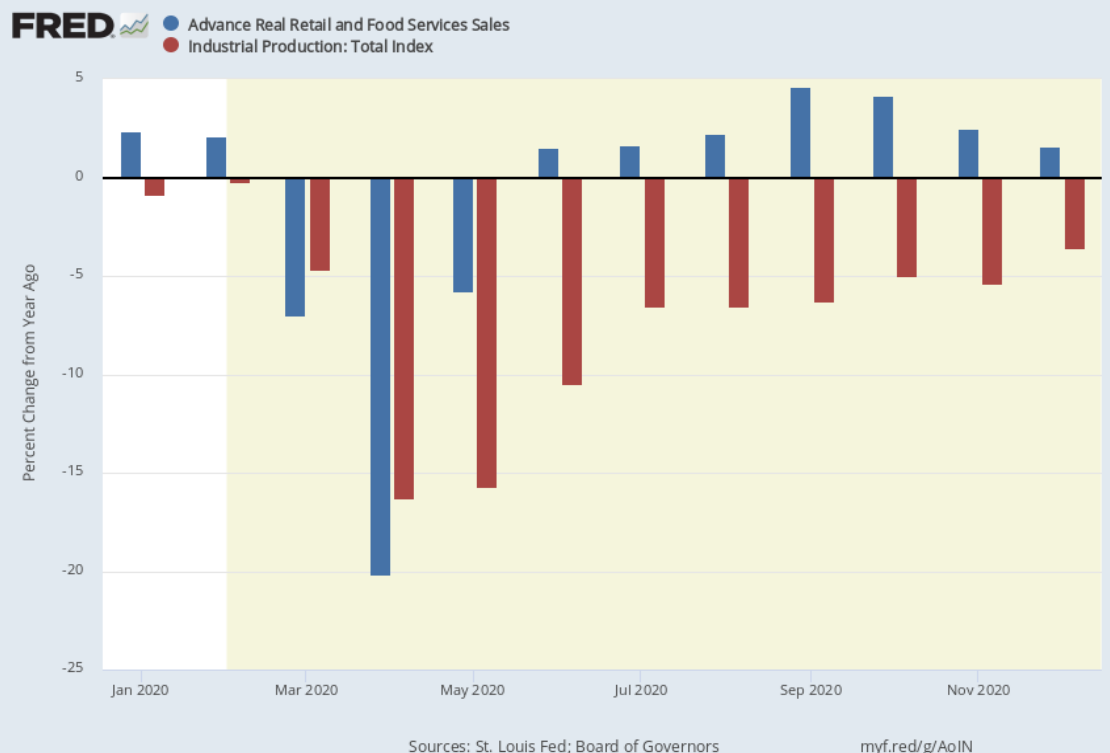


# Gross Domestic Product Annual Rate



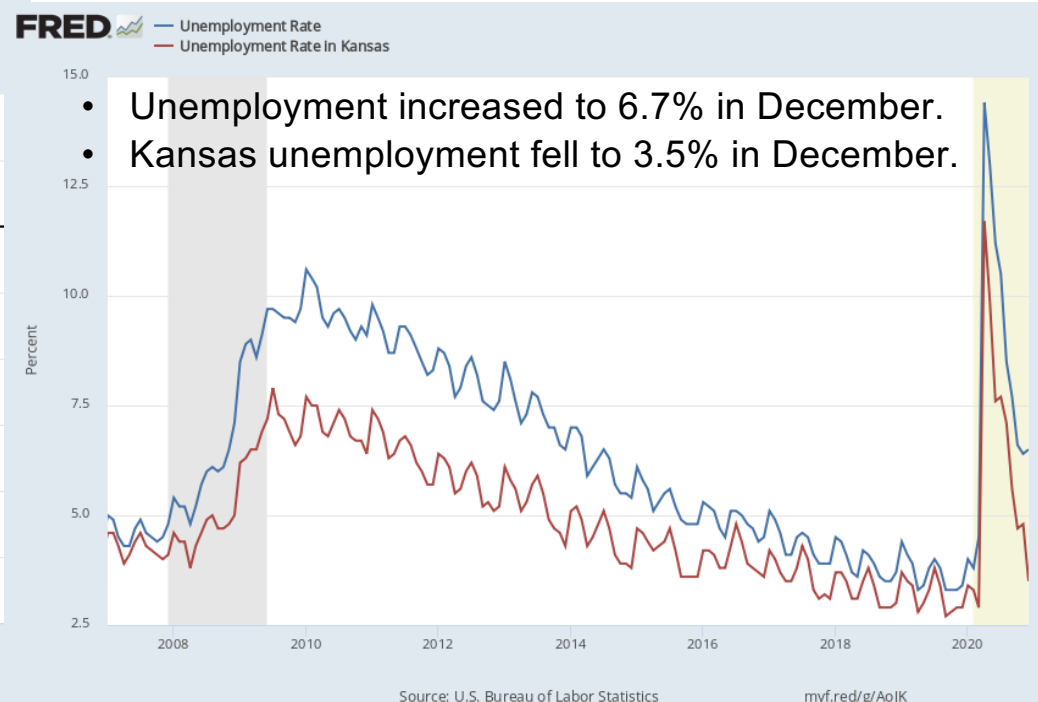
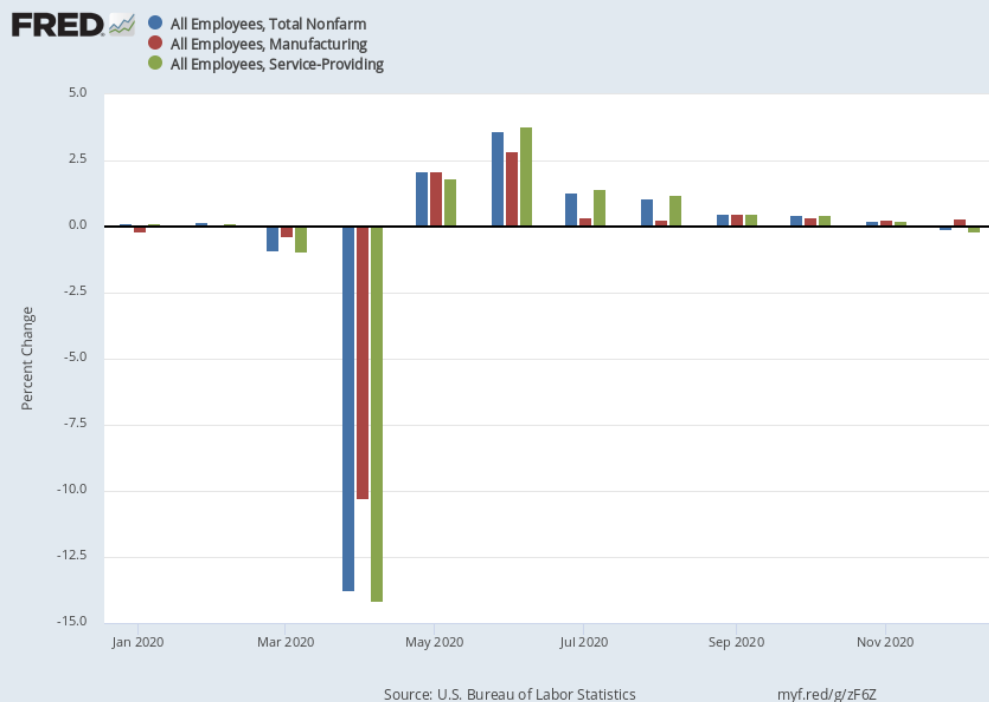
- Gross Domestic Product was still down 2.5% from a year ago in Q4.
- Consumption was down 2.9% in Q3.
- GDP grew 0.99% in Q4 compared to Q3.

# Industrial Production & Retail Sales in November



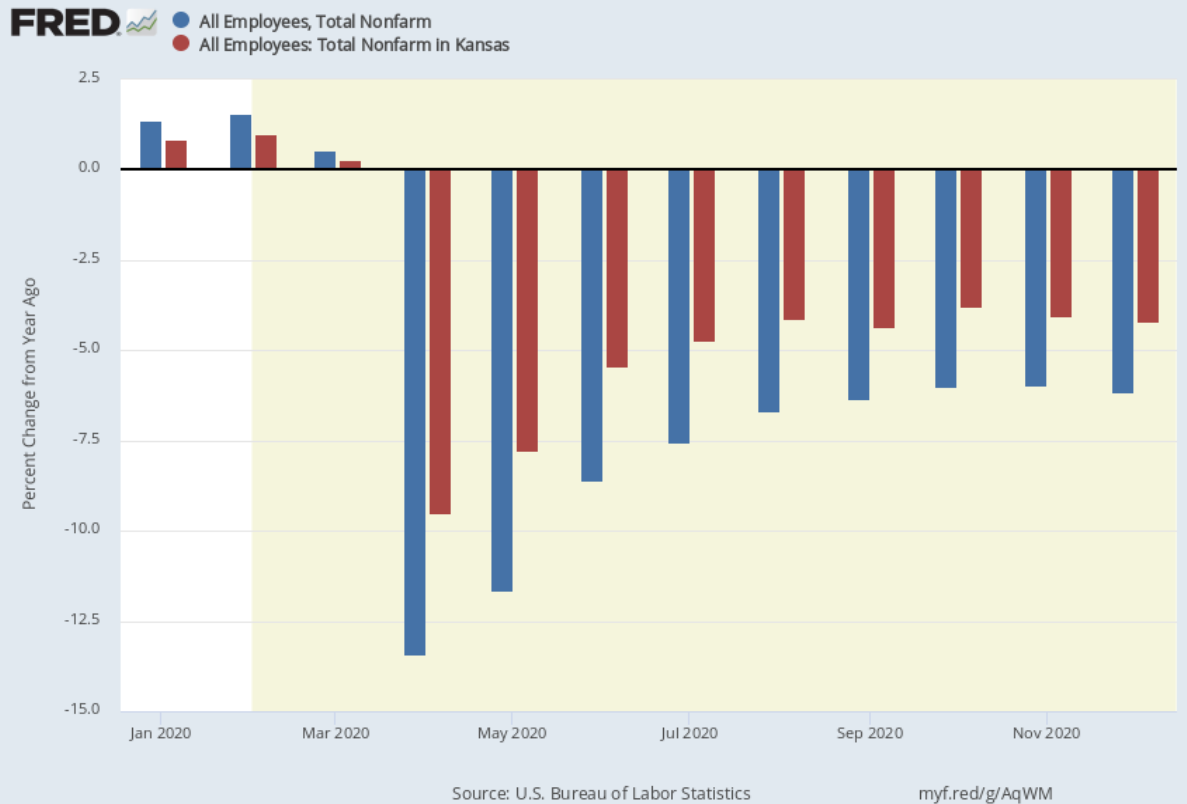
- Compared to a year ago, retail sales are up 1.6%.
- Compared to a year ago, industrial production is down 3.6%.
- Although sales have recovered, production has not.

# Employment & Unemployment in December 2020



- Employment fell by 0.09% in December.
- Service employment fell by 0.19%.

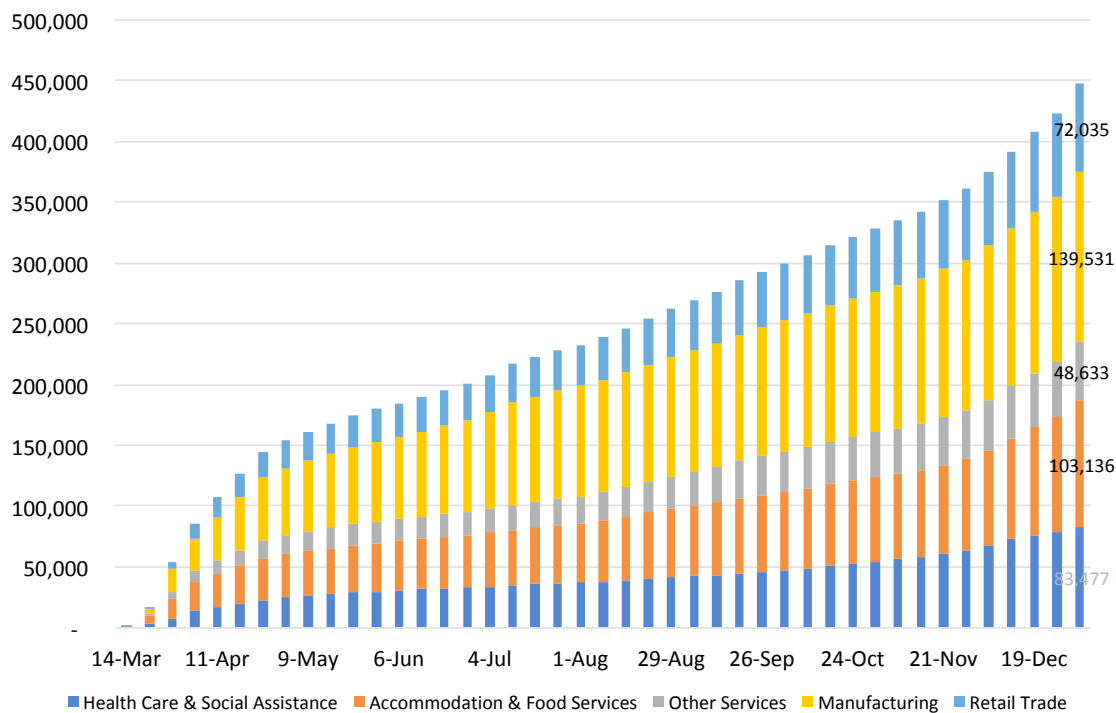
# Employment in Kansas and US Compared to a Year Ago



- Kansas employment was down 4.2% from a year ago in December.
- US employment was down 6.2% compared to a year ago in December.
- Employment recovery has stalled.

# Cumulative Initial Unemployment Claims by Industry

Kansas Industries with Largest Cumulative Job Losses March 14 - January 2



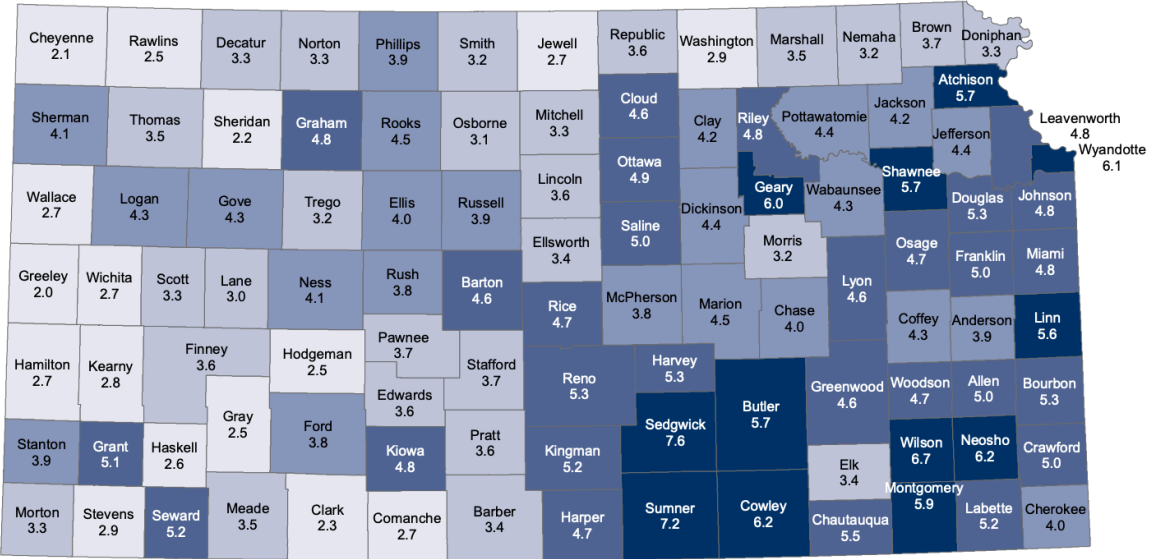
- Industries hardest hit include:

- Manufacturing: 139,531
  - Accommodation & Food Services: 103,136
  - Health care & Social Assistance: 83,477
  - Retail Trade: 60,72,035
  - Other Services: 48,633
- These five industries account for 60% of people who have lost their jobs.



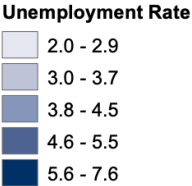
# December Kansas Unemployment Rate 3.5%

Unemployment Rate in Kansas, by County  
November 2020



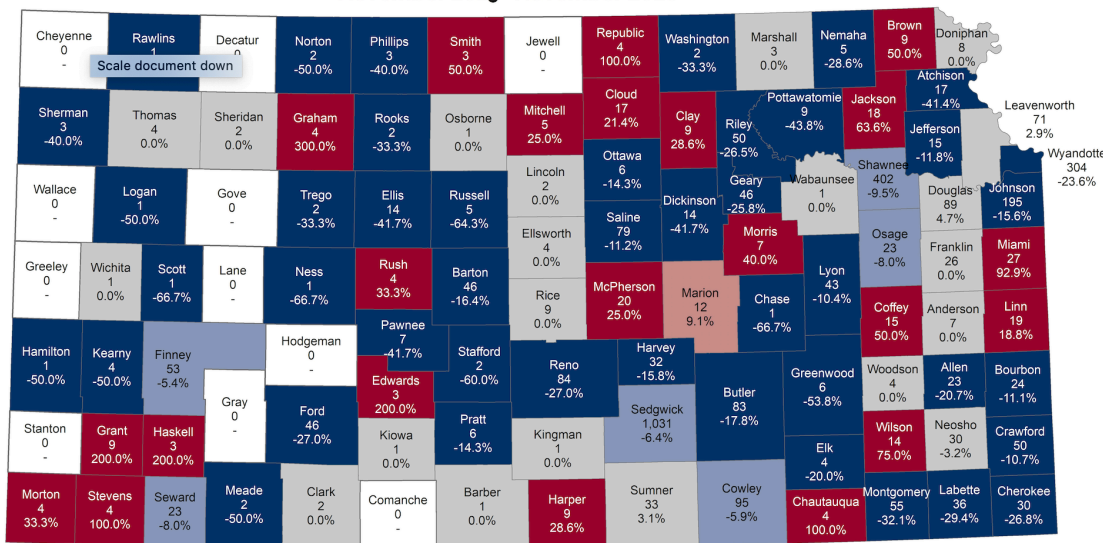
- Uneven impact across the state:
  - Sedgwick County 7.6%
  - Douglas 5.3 %
  - Johnson 4.8%
  - Wyandotte 6.1%
  - Shawnee 5.7%
- Unemployment increased compared to October.

Source: Institute for Policy & Social Research, The University of Kansas; data from Kansas Department of Labor.

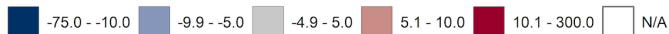


# Demand for Social Assistance Has Increased

Percent Change in Households Receiving Temporary Assistance for Needy Families (TANF) in Kansas, by County  
November 2019 - November 2020



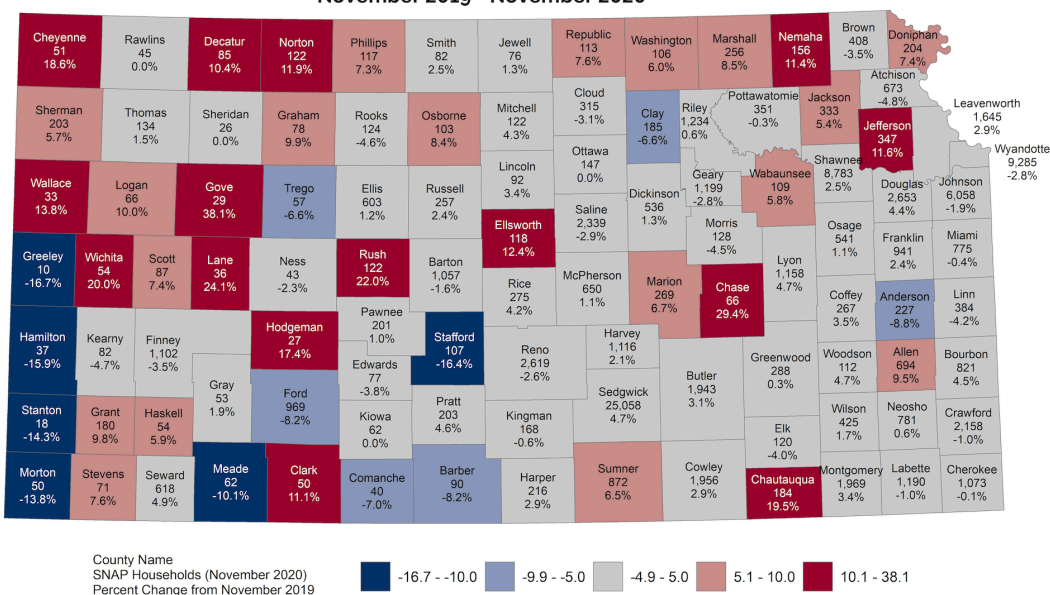
County Name  
TANF Households (November 2020)  
Percent Change from November 2019



- Percent change in households receiving TANF by county, November 2019 – November 2020.
- Dark red counties indicate an increase of 10% or more.
  - Caseloads have decreased by 9.5% in Shawnee County & increased by 4.7% in Douglas County.

# Demand for SNAP Benefits Have Also increased

Percent Change in Households Receiving Supplemental Nutrition Assistance Program (SNAP) in Kansas, by County  
November 2019 - November 2020



- Percent change in households receiving SNAP benefits by county, November 2019 – November 2020
- Dark red counties indicate an increase of 10.1% or more.
- Expect these numbers to increase.

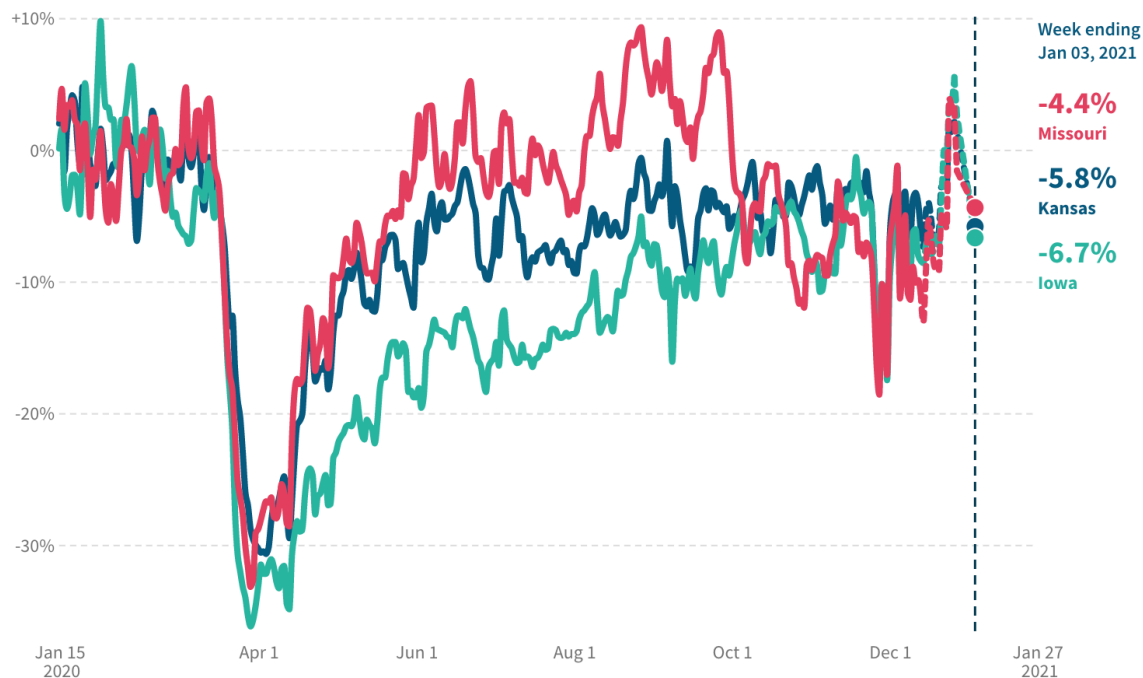


# How Does Kansas Compare?

# Kansas Consumption Has Dropped in the Past Year

In **Kansas**, as of January 03, 2021, total spending by all consumers decreased by **5.8%** compared to January 2020.

DOWNLOAD CHART 

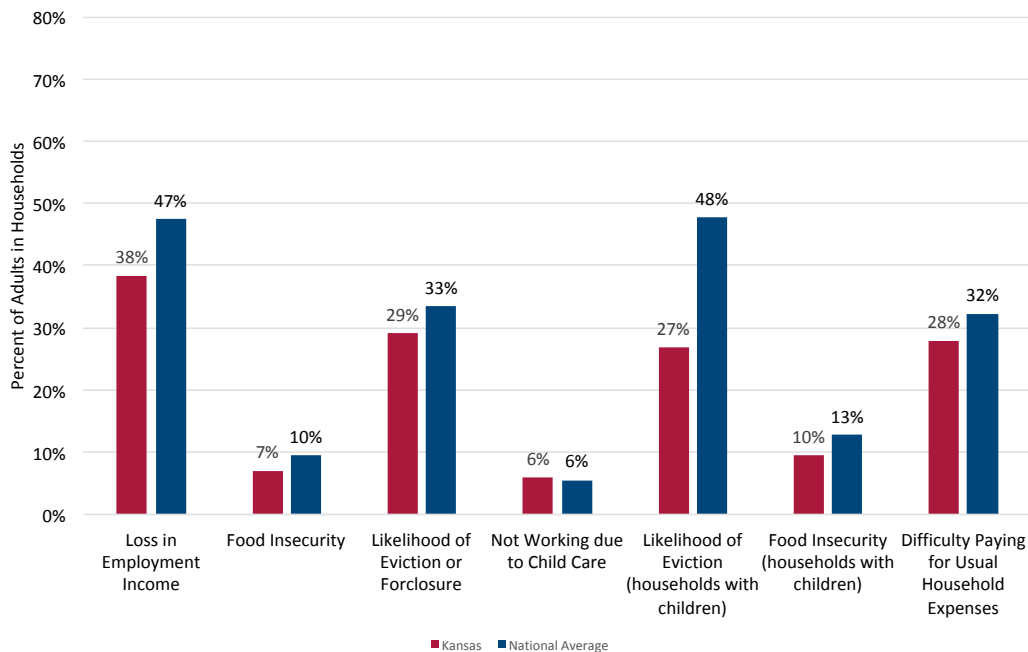


- Kansas consumption expenditures are somewhat worse than Missouri and better than Iowa.
  - Kansas had more restrictions than either Missouri or Iowa.
  - Missouri down -4.4%
  - Iowa down -6.7%



# Kansas and US Household Comparison January 18th


US Census Household Pulse Survey

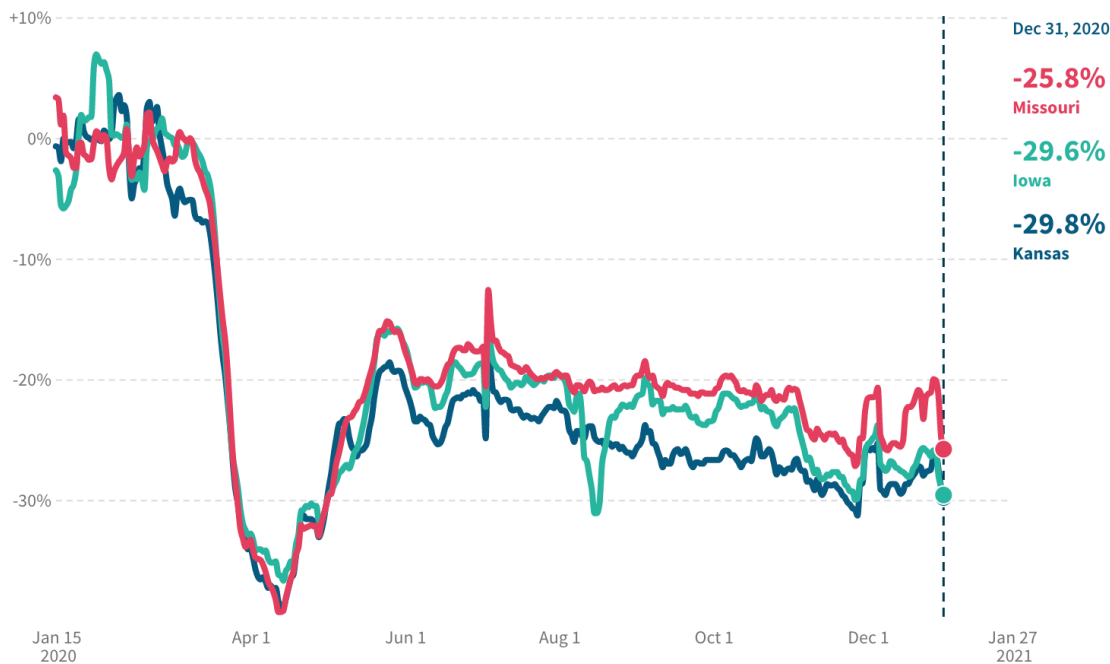


- 38% of Kansas households faced loss in employment income
  - 27% of Kansas households with children report likely or somewhat likely eviction
  - 10% of Kansas households with children are food insecure

# 30% of Kansas Small Businesses Have Closed in 2020

In **Kansas**, as of December 31, 2020, the number of small businesses open decreased by **29.8%** compared to January 2020.

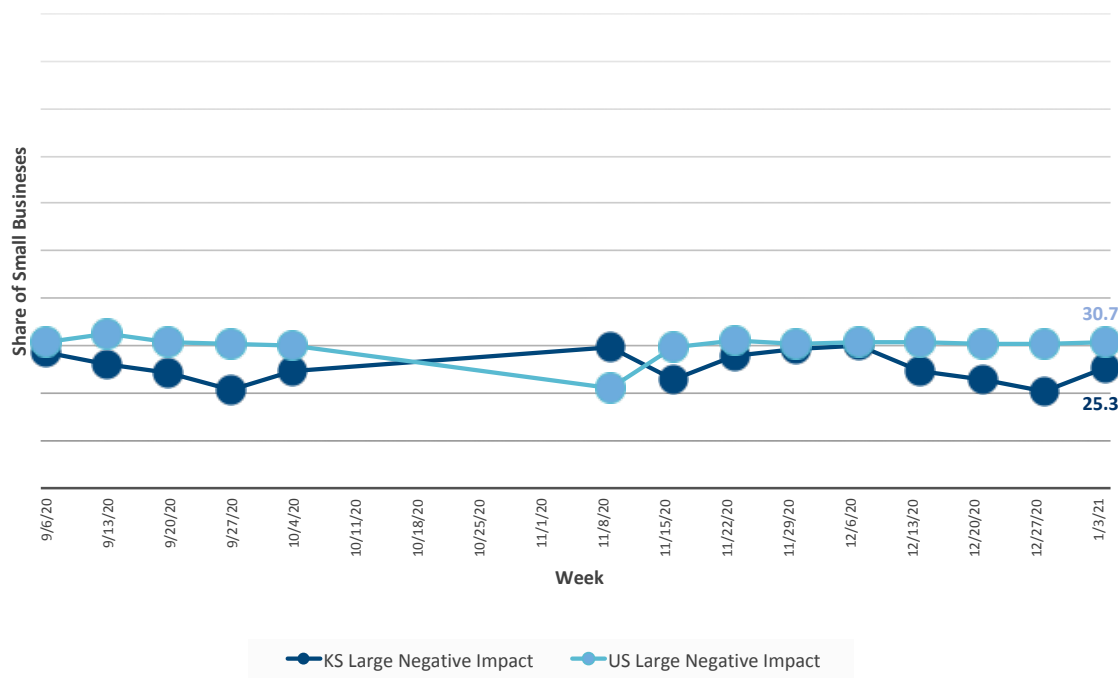
DOWNLOAD CHART 



- The number of small businesses open in Kansas has fallen by 29.8% since January.
  - In the US, the number is -29.7%.
  - Kansas is doing worse than Missouri: -25.8% and about the same as Iowa
- At its worst, 39% of Kansas small businesses were closed.

# Small Business Pulse Data

Share of Small Businesses Reporting a Large Negative Impact as a Result of the Covid-19 Pandemic



- Dark Blue: Kansas small businesses
- Light Blue: US small businesses
- 20.4% of Kansas small businesses reported a large negative impact from the pandemic in the most recent week.
- Better than the share of US businesses reporting a large negative impact.



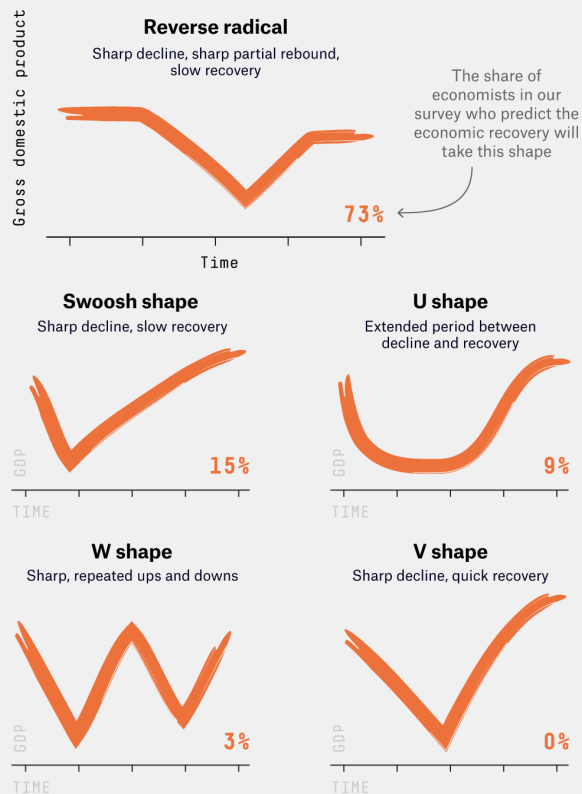
# What's the Latest Letter for the Economic Recovery?

**K is not OK.**

# Shape of the Recovery – Reverse Radical?

## Economists in our survey expect an uneven recovery

Expert predictions for the shape of the U.S. economic recovery



FiveThirtyEight

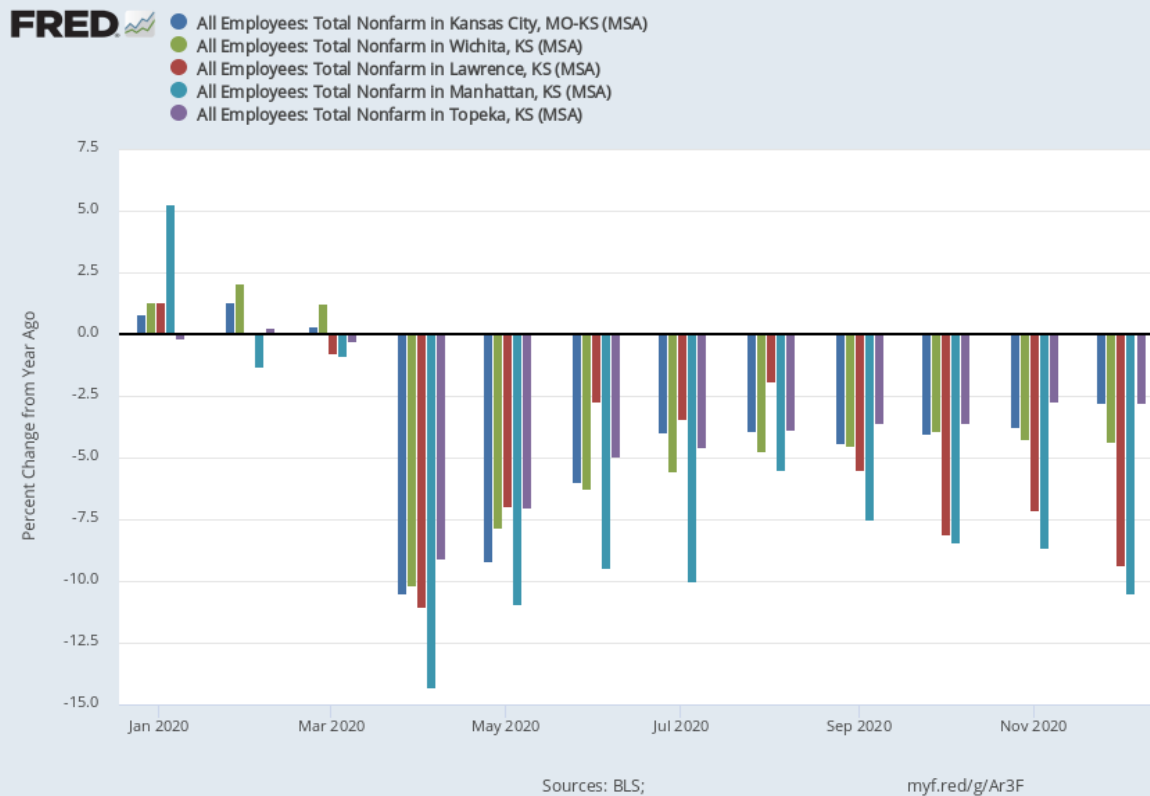
SOURCE: FIVETHIRTYEIGHT/IGM COVID-19 ECONOMIC OUTLOOK SURVEY

- In June, Fivethirtyeight.com interviewed top macroeconomists about the recovery.
- 73% of economists expect a reverse radical recovery:
  - Sharp-partial recovery with prolonged lower level.
- Now economists are talking about K-shaped recovery.

Source: <https://fivethirtyeight.com/features/what-economists-fear-most-during-this-recovery/>



# Employment by Major City in Kansas



- Kansas City MSA is down 2.8% from a year ago.
- Wichita is down 4.3%.
- Lawrence is down 9.4%.
- Manhattan is down 10.5%.
- Topeka is down 2.8%.

# Is This a K-shaped Recovery?

## The Washington Post

Economy

# The recession is over for the rich, but the working class is far from recovered

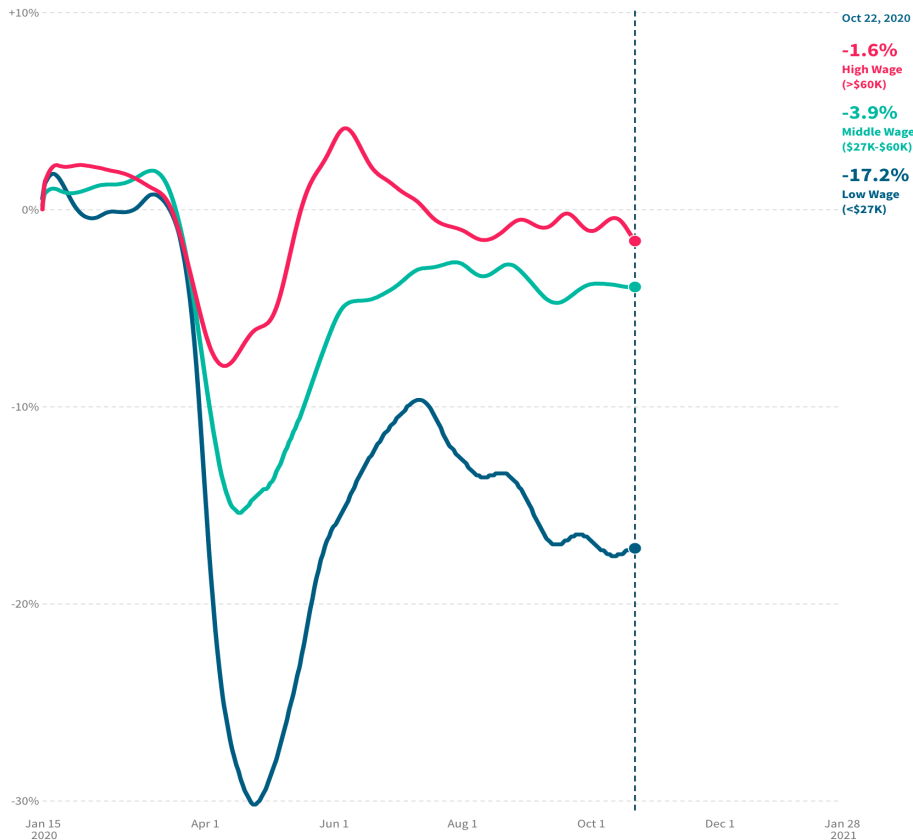
The stock market and home values are back at record levels, while jobs remain scarce for those earning less than \$20 an hour

August 13, 2020

# Is This a K-shaped Recovery?

In **Kansas**, as of October 22, 2020, employment rates among workers in the bottom wage quartile decreased by **17.2%** compared to January 2020 (not seasonally adjusted).

DOWNLOAD CHART



- Jobs for those earning > \$60,000 per year are down -1.6%.
- Jobs for workers earning <\$27,000 per year are down -17.2%.
  - The rich have recovered.
  - The rest have not.

Source: Economic Tracker, <https://tracktherecovery.org/>



# Is Help on the Way for the Struggling Economy?

Maybe some, but not enough.

# Congress Passed a New Stimulus Bill

## *Americans Scraping By Say They Fear a Second Stimulus Won't Be Enough*

A proposed package includes \$600 checks for individuals, but some facing overdue rent and stacks of bills say the money would make only a small dent.

- Programs for people:
  - \$600 per person stimulus payments
  - \$300 per month in federal unemployment benefits until March 14<sup>th</sup>
  - Moratorium on Evictions until January 31<sup>st</sup>
  - \$25 billion in rental assistance
  - \$13 billion in food assistance
  - \$10 billion in childcare assistance

# Congress Passed a New Stimulus Bill

- Programs for businesses:
  - \$284 billion for the PPP program
    - Program extended to churches & non-profits
  - \$20 billion in Economic Injury Disaster Loans
  - \$15 billion for the entertainment industry (e.g. movie theaters)
  - Tax break for corporate lunches
  - \$13 billion in agriculture assistance

## Other Provisions

- \$45 billion for transportation including:
  - Airlines, mass transit, airports & Amtrak
- \$82 billion for education:
  - \$23 billion for Higher Education
  - \$54 billion for K-12
- \$20 billion for vaccine distribution
- It remains to be seen how much this will help the economy.

Source: <https://www.washingtonpost.com/business/2020/12/20/stimulus-package-details/>



# Do Tax Cuts Promote Economic Growth?



# Tax Council Charge

- Measures and policies designed to:
  - Achieve increased effectiveness (tax adequacy)
  - Fairness in the state's tax system (tax equity)
- Other aspects of good tax policy:
  - Relatively equal reliance on different types of taxes (sales, income, property)
    - **The Kansas 3-Legged Stool**



# Relationship Between Taxes and Economic Growth

## The Economic Consequences of Major Tax Cuts for the Rich

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David Hope, Julian Limberg

Working Paper 55

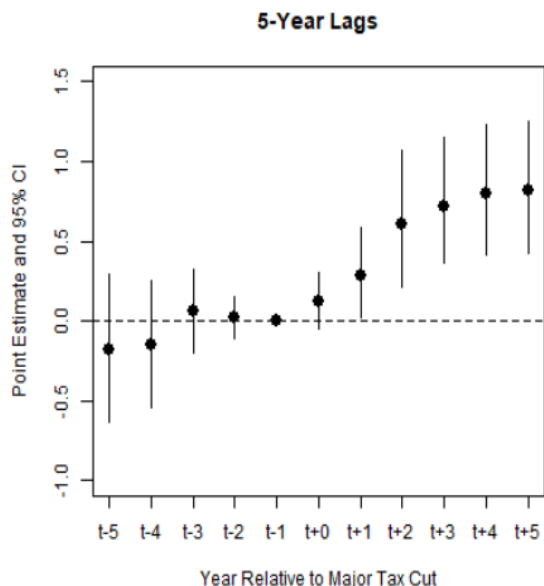
December 2020



- Uses data from 18 OECD countries to examine the causal effect of tax cuts on the rich
- Examine:
  - Inequality
  - GDP
  - Employment

# Causal Effect of Tax Cuts on the Rich and Inequality

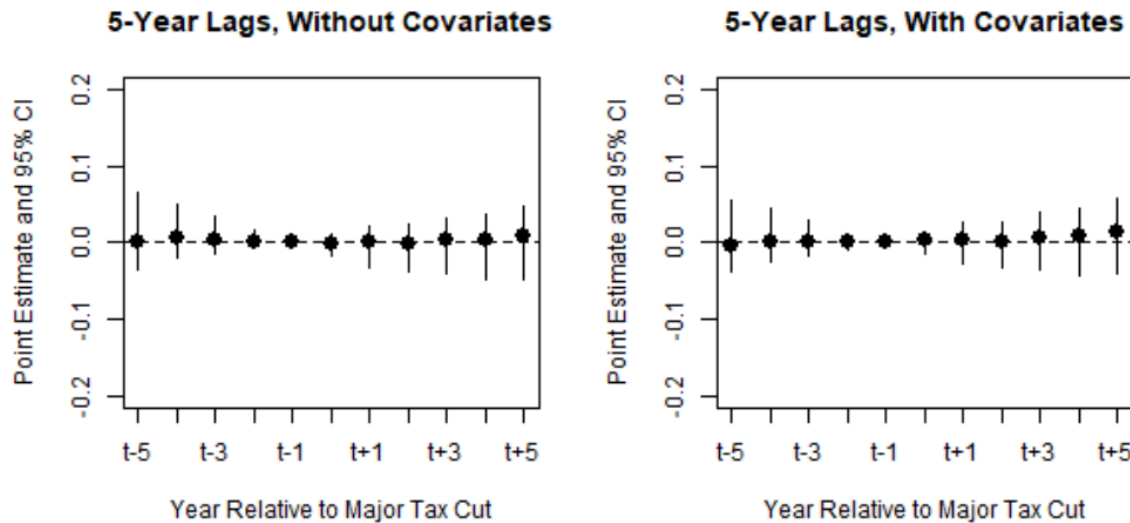
Figure 6. Effect of major tax cuts for the rich on top 1% income shares after matching on treatment trajectory and covariates



- Tax cuts for the rich increase the income share flowing to the rich by 1%
- Tax cuts on the rich, make the rich even richer.
  - These tax cuts are not equitable

# Causal Effect of Tax Cuts on the Rich and Economic Growth

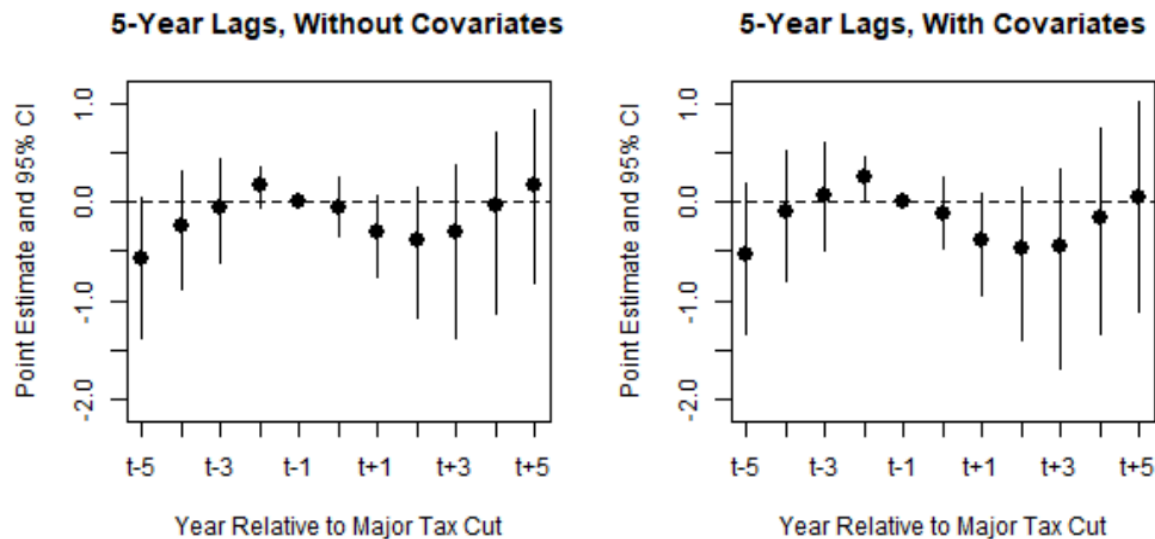
Figure 7. Effect of major tax cuts for the rich on (log) real GDP per capita after matching on treatment trajectory (left panel) and treatment trajectory and covariates (right panel)



- Tax cuts for the rich have no impact on economic growth
  - This has been found by other studies.

# Causal Effect of Tax Cuts on the Rich and Unemployment

Figure 8. Effect of major tax cuts for the rich on unemployment rates after matching on treatment trajectory (left panel) and treatment trajectory and covariates (right panel)



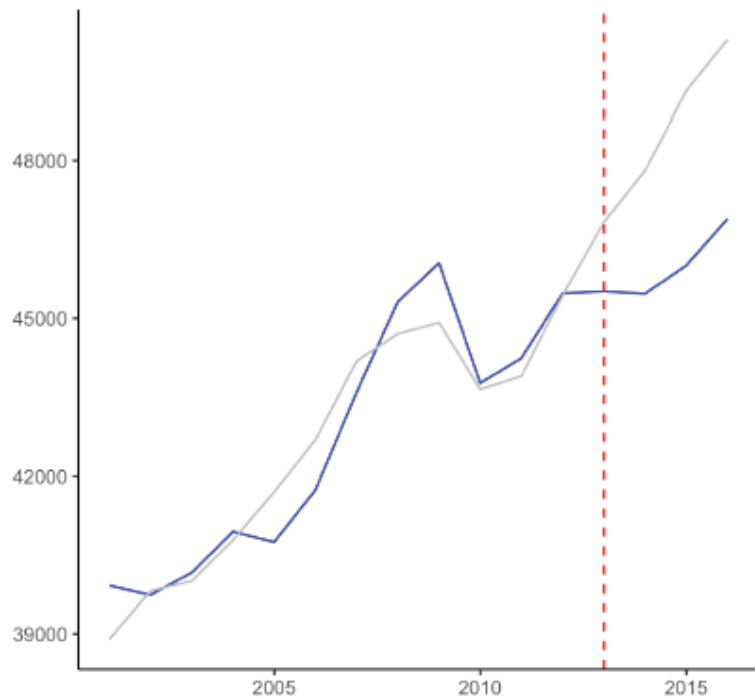
- Tax cuts for the rich have no impact on unemployment.



In Kansas,  
We Knew That Already

# Causal Effect of Kansas Tax Cuts on Economic Growth

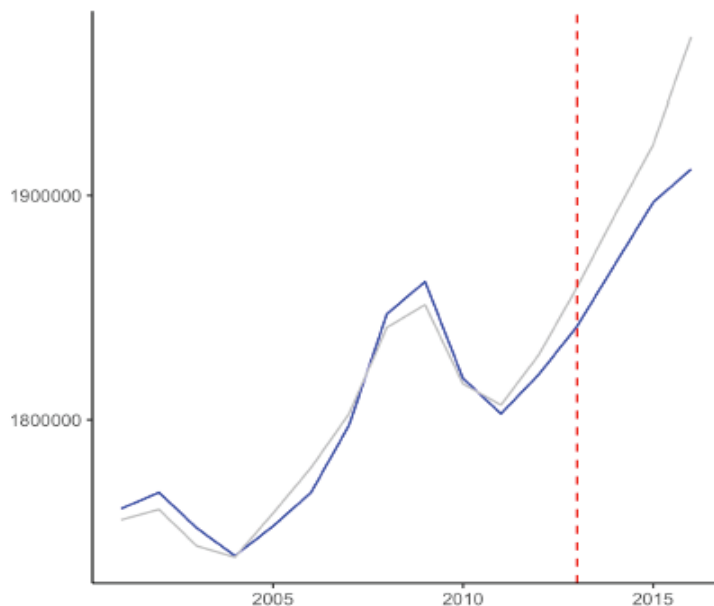
(a) Actual and Synthetic KS



- McCloskey (2018) “The Kansas Tax Experiment: Impact of 2012 Tax Reform on Output, Employment & Establishments”
- Synthetic Control Method
  - Kansas is Treated State (Tax Cuts)
  - Other states make up a weighted average of “synthetic Kansas”
  - Border states + Idaho, Iowa, Arkansas, Mississippi, Georgia, South Carolina, West Virginia, Pennsylvania, Massachusetts, Maine
- Growth was lower in Kansas!

# Causal Effect of Kansas Tax Cuts on Total Employment

(a) Actual and Synthetic KS



- McCloskey (2018) “The Kansas Tax Experiment: Impact of 2012 Tax Reform on Output, Employment & Establishments”
- Synthetic Control Method
  - Kansas is Treated State (Tax Cuts)
  - Other states make up a weighted average of “synthetic Kansas”
  - Border states + Idaho, Iowa, Arkansas, Mississippi, Georgia, South Carolina, West Virginia, Pennsylvania, Massachusetts, Maine
- Employment was lower in Kansas!



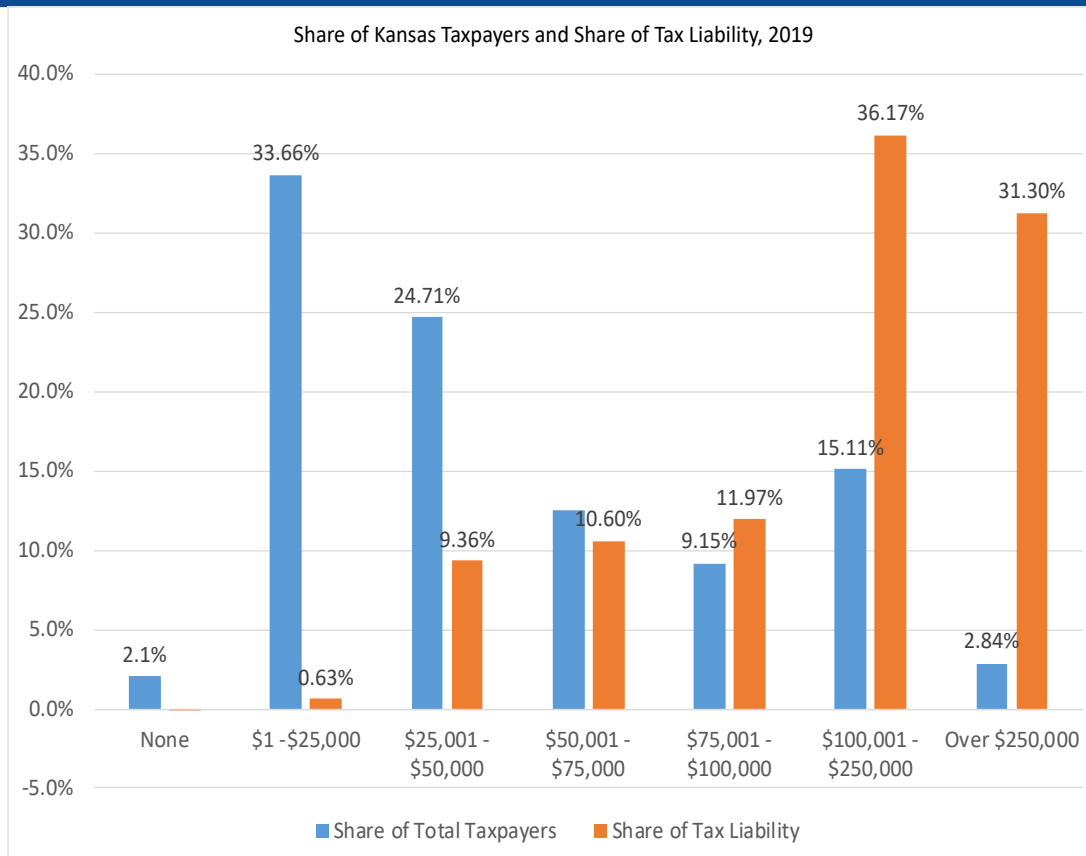
# Tax Cuts and Economic Growth

- There is almost no evidence that tax cuts have a causal effect on economic growth.
- Why don't tax cuts work:
  - Because the rich don't spend the tax cuts in Kansas.
- Perhaps tax cuts focused on people who spend most of their income would have a positive effect on growth.



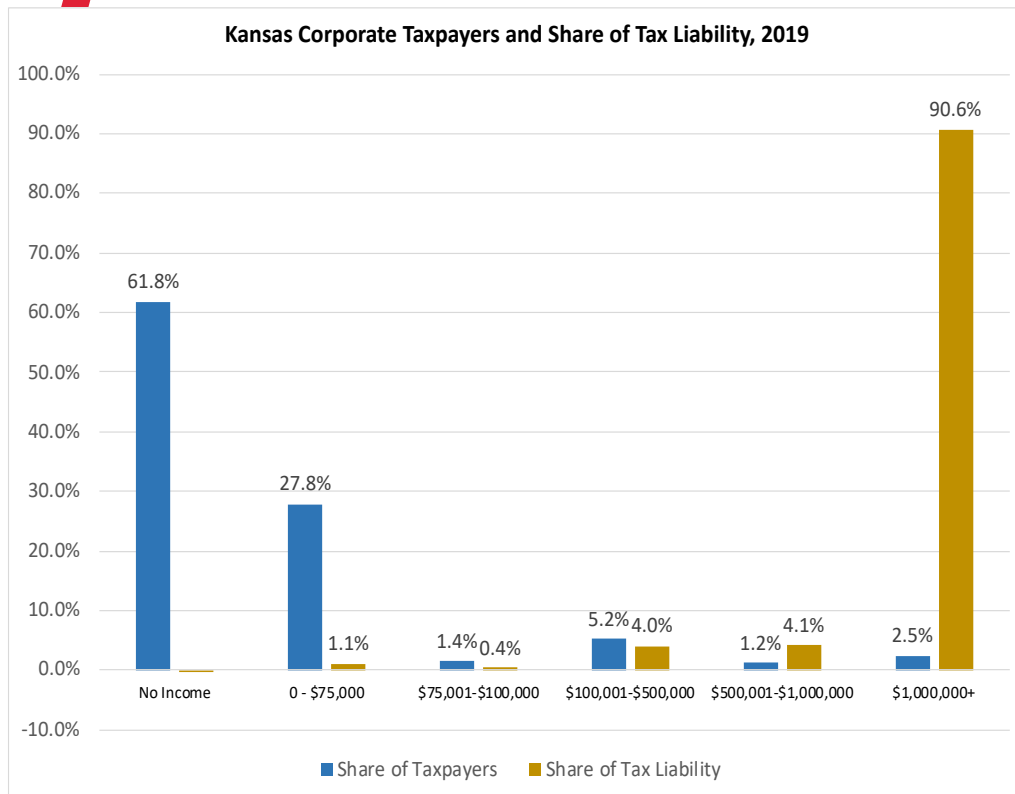
# Tax Council Proposal for 2021

# Distribution of Individual Income Taxes TY 2019



- 61% of Kansas Tax Returns have \$50,000 or less of KAGI
- 17% of Kansas Tax Returns have over \$100,000 KAGI.
- Kansas Median Household Income \$58,218 in 2018
- 33.7% (433,014 Households) have KAGI between 0–\$25,000
- Median KAGI \$37,821
- Source (Kansas Department of Revenue).

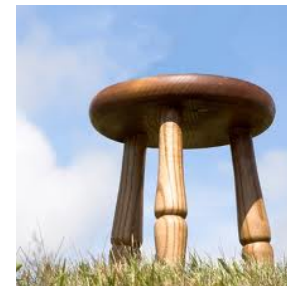
# Distribution of Corporate Income Taxes TY 2019



- 29,813 corporations file tax returns in Kansas
- 62% (18,410) of corporations reported no income.
- 773 corporations paid almost 91% of corporate taxes.
- Only 1,099 corporations earn \$500,000 or more
- Total Corporate Tax Liability is \$500 Million

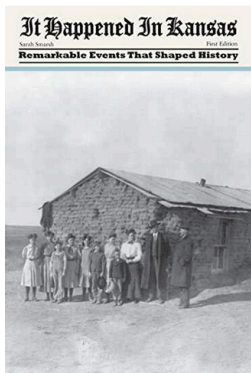
# Tax Council Recommendations

- Marketplace Facilitator Tax (\$43.1 M)
- Digital Property Tax (\$ 42.7 M)
- Refundable Food Sales Tax Credit (-\$53)
- Property Tax Lid Exemptions
- Local Ad Valorem Property Tax Reduction Fund
- Restoring the Three-Legged Stool
- Request Additional Federal Support for State & Local Governments.





# Digital Goods Taxes



It Happened in Kansas: Remarkable Events That Shaped History (It Happened In Series)

Part of: [It Happened In \(30 Books\)](#) | by [Sarah Smarsh](#) | Aug 17, 2010

★★★★☆ ~ 23

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NETFLIX

No tax on streaming services

# Sales Taxes on Specific Digital Goods and Services

Digital Good	CO	IA	KS	MO	NE	OK
Software packaged	y	y	y	y	y	y
Software electronic (online) delivery	n	y	y	n	y	n
Software as a Service (SaaS)	n	y	n	n	y	n
Cloud storage	n	y	n	n	y	n
Downloaded music	y	y	n	n	y	n
Downloaded books	y	y	n	n	y	n
Downloaded videos	y	y	n	n	y	n
Music streaming	n	n	n	n	y	n
Video streaming	n	y	n	n	y	n

Table based on Garrett and Nülle (2020). Information on Colorado was difficult to interpret.

- Kansas currently taxes only one of eight digital services.
- 29 states tax at least two services.
- Nebraska and Iowa tax almost all digital goods.
- The fiscal note on this proposal generates \$42.7 M



# House Bill 2091 Food Sales Tax Refundable Credit

- In 2012 Kansas had Food Sales Tax Refund for households with < \$36,700 FAGI
- Current Food Sales Tax Credit:
  - \$125 Non-refundable credit for FAGI of <\$30,616
- HB 2091 Food Sales Tax Refundable Credit
  - \$60 for Single or Married filing separately for FAGI < \$30,000
  - \$180 for Head of Household with FAGI < \$40,000
  - \$240 for Married filing jointly with FAGI < \$40,000

# House Bill 2091 Food Sales Tax Refundable Credit

	Current Law	Current Law Net Benefit	2012 Law	2012 Law Net Benefit	HB 2091	SB 2091 Net Benefit	1% Sales Tax	3% Sales Tax
Single, 0 Dependents	\$125	\$125	\$47	(\$78)	\$44	(\$81)	\$27	\$82
Head, 1 Dependent	\$0	\$0	\$141	\$141	\$132	\$132	\$35	\$104
Head, 2 Dependents	\$375	\$0	\$188	\$188	\$176	\$176	\$27	\$82
Head, 1 Dependent	\$250	\$250	\$141	(\$109)	\$132	(\$118)	\$35	\$104

- Each program creates winners and losers
- Sales tax cuts do not have meaningful impact at 1% level
- Expanding the income threshold and making the rebate refundable would increase the impact.



**SB-22 Will Cost \$175  
Million in FY 2022\***

**Is the State Spending Money It  
Doesn't Have?**

\* Fiscal Note as of January 28, 2020

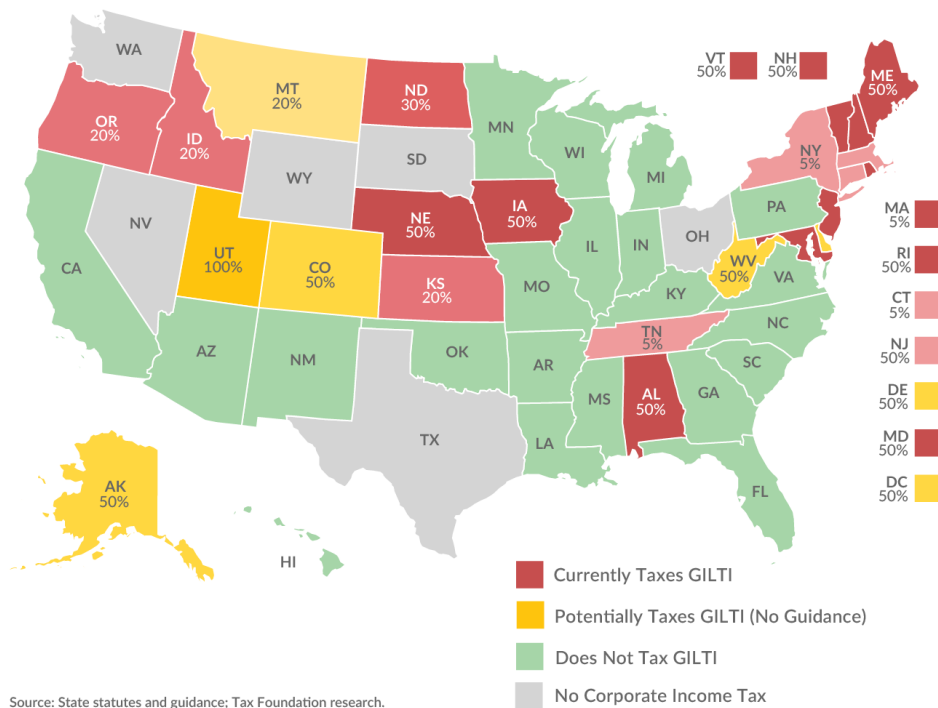
## Major SB-22 Provisions

- Disallowed Business Interest
- 100% of Global Intangible Low-Taxed Income (GILTI) be deducted from income.
- Deduct meal expenses
- PPP loans not forgiven by federal government would not be counted as income in Kansas
- Decoupling from federal tax system to allow itemized deductions by individual taxpayers

# GILTI Across the Country

## State Taxation of GILTI

As of January 1, 2020



Source: State statutes and guidance; Tax Foundation research.

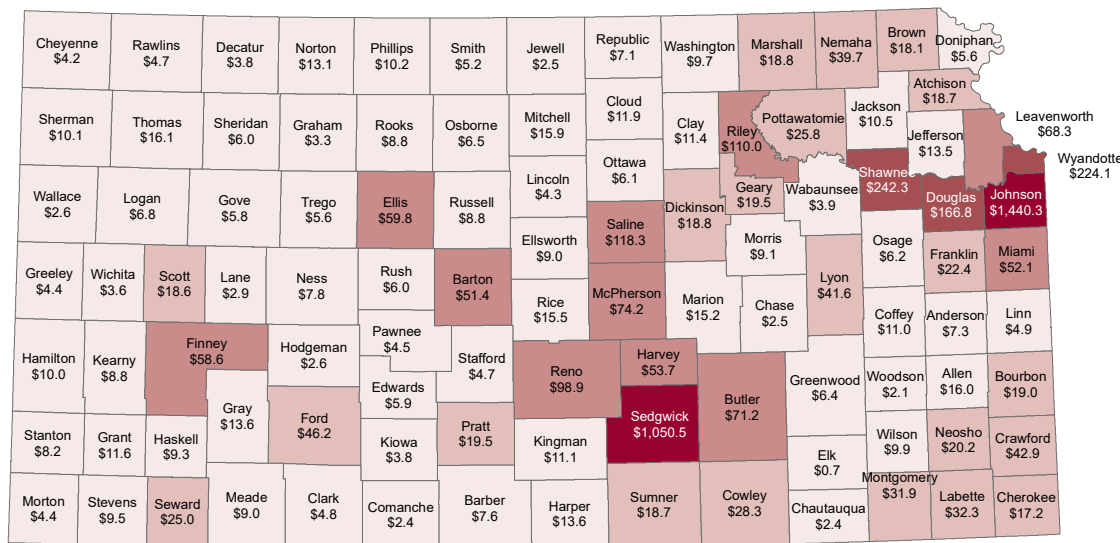
TAX FOUNDATION

@TaxFoundation

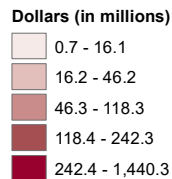
- Global Intangible Low-Taxed Income (GILTI) is taxed at the federal level
- 24 states tax GILTI
  - 13 states have higher rates than Kansas, including 3 of 5 surrounding states
- Fiscal note in FY 2022 GILTI will cost -\$24.2 M
- Large multinational corporations are most likely to pay GILTI

# Payroll Protection Program Loans by County

Estimated Amount of PPP Loans in Kansas, by County, as of June 30, 2020



Source: Institute for Policy & Social Research, The University of Kansas; data from U.S. Small Business Administration.



**Kansas Total:**  
\$4,996.1 million  
51,872 loans

- Kansas received \$5 B in PPP Loans
- Some estimate 5 – 6% of those loans could be written off.
- If 5% of loans were written off that would be \$250 Million in taxable income reductions.

# Itemization

- The 2017 federal tax law increased the standard deduction and child tax credit.
  - Fewer taxpayers could itemize
  - Kansas did not change its standard deduction
- Kansas is a conforming state and fewer Kansas taxpayers could not itemize.
- Itemization is only salient for higher-income taxpayers.

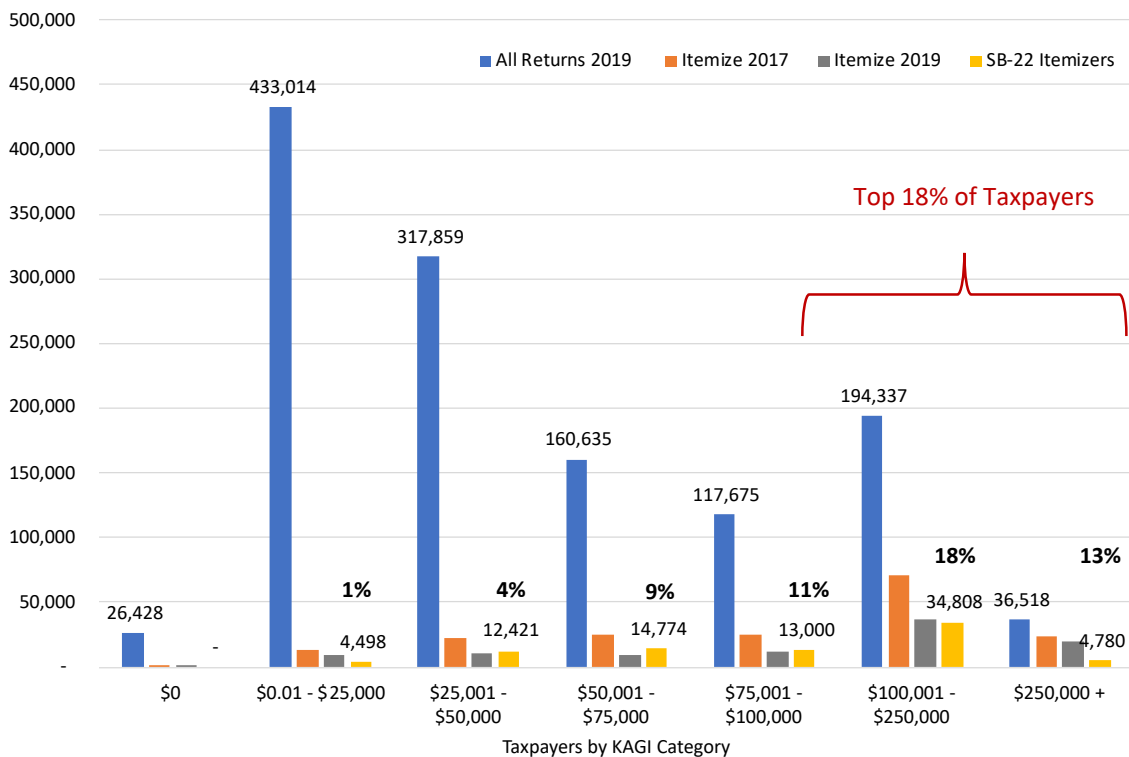
## Costs and Benefits of Itemization

- Kansas Department of Revenue found that 108,386 taxpayers were no longer able to itemize in 2018.
- Kansas collected \$65 million in additional income taxes from these taxpayers.
  - However, the majority of this increase was from Kansas tax rate increases due to 2017 tax increase that also increased in 2018.
  - Net effect of reduction in itemization was an increase of \$15 million in 2018.



# Who Benefits from Itemization?

Share of Taxpayers by KAGI Income Category and Those that Itemize 2017 & 2019



- SB-22 Itemizers are difference between those who Itemized in 2017 and Itemized in 2019.
- Median Taxpayer (Red Line) is \$21,442 KAGI
  - 1% of filers below the median will benefit from itemization.
- Percentages are estimates of those within KAGI bracket who will be new SB-22 itemizers.
  - Benefits flow to the top 18% of taxpayers
- 6.6% more taxpayers will benefit from itemization in SB-22.

## Costs and Benefits of Itemization

- Only 6.6% more taxpayers would be itemizing if Kansas de-coupled.
- Based on current Kansas law, the estimated impact of itemization for future tax years is:
  - -\$121.2 million for TY2022
  - -\$61.5 for TY2023
  - -\$62.1 million for TY2024.

## Itemization Scenarios

- Kansas Department of Revenue has estimated several itemization scenarios.
- Deductions for individuals:
  - Charitable Contributions \$2000
  - Mortgage Interest ~\$4,125
  - State & Local Taxes ~\$4,469
  - Real Estate Taxes ~\$3,781
  - Property Taxes ~\$688
- Factor in changes in federal taxes and state taxes before and after changes in itemization.

## Federal Tax Return: Hypothetical Taxpayer, Married Filing Jointly w/ \$120,000 Income, 2 Dependents

Federal Tax Return	2017	2018	2019	2020
<b>Earned Income</b>	\$120,000	\$120,000	\$120,000	\$120,000
<b>Deduction</b>	\$19,000	\$24,000	\$24,400	\$24,800
Standard Deduction	\$12,700	\$24,000	\$24,400	\$24,800
Itemized Deduction	\$19,000	\$18,000	\$18,000	\$18,000
<b>Personal Exemption</b>	\$16,200	\$0	\$0	\$0
<b>Taxable Income</b>	\$84,800	\$96,000	\$95,600	\$95,200
<b>Tax</b>	\$12,677	\$12,999	\$12,749	\$12,524
<b>Child Tax Credit</b>	(\$2,000)	(\$4,000)	(\$4,000)	(\$4,000)
<b>Tax Owed</b>	\$10,677	\$8,999	\$8,749	\$8,549
<b>A. Tax Change from Previous Year</b>		-\$1,678	-\$250	-\$225

- Both the Standard Deduction and Child Tax Credit Doubled.
- The household takes the Standard Deduction.
- Taxes fall by 16%.

## Kansas Tax Return: Hypothetical Taxpayer, Married Filing Jointly w/ \$120,000 Income, 2 Dependents

Kansas Tax Return	2017	2018	2019	2020
<b>Earned Income</b>	\$120,000	\$120,000	\$120,000	\$120,000
<b>Deduction</b>	\$8,250	\$7,500	\$7,500	\$7,500
<b>Standard Deduction</b>	\$7,500	\$7,500	\$7,500	\$7,500
<b>Itemized Deduction</b>	\$8,250	\$8,250	\$11,375	\$14,500
<b>Personal Exemption</b>	\$9,000	\$9,000	\$9,000	\$9,000
<b>Taxable Income</b>	\$102,750	\$103,500	\$103,500	\$103,500
<b>Tax Owed</b>	\$4,563	\$4,985	\$4,985	\$4,985
<b>Tax Change from Previous Year</b>		<b>\$422</b>	<b>\$0</b>	<b>\$0</b>
<b>Impact from Itemization</b>		\$39	\$0	\$0
<b>Impact from KS Tax Changes</b>		\$383	\$0	\$0
<b>Total Tax Savings (Federal + State)</b>		<b>\$1,257</b>	<b>\$250</b>	<b>\$225</b>
<b>Tax Savings from Itemization</b>		<b>\$43</b>	<b>\$221</b>	<b>\$399</b>

- Kansas taxes increased
  - But 91% of that increase was from an increase in KS taxes in 2018.
- Overall, household paying \$1,257 less.
- Itemization only pays off for high deductions.

Tax Savings from itemization is difference between standard and itemized deduction X 5.7% tax rate.

## Federal Tax Return: Hypothetical Taxpayer, Married Filing Jointly w/ \$75,000 Income, 2 Dependents

Federal Tax Return	2017	2018	2019	2020
<b>Earned Income</b>	\$75,000	\$75,000	\$75,000	\$75,000
<b>Deduction</b>	\$16,200	\$24,000	\$24,400	\$24,800
Standard Deduction	\$12,700	\$24,000	\$24,400	\$24,800
Itemized Deduction	\$16,200	\$16,200	\$16,200	\$16,200
<b>Personal Exemption</b>	\$16,200	\$0	\$0	\$0
<b>Taxable Income</b>	\$42,600	\$51,000	\$50,600	\$50,600
<b>Tax</b>	\$5,458	\$5,739	\$5,684	\$5,629
<b>Child Tax Credit</b>	(\$2,000)	(\$4,000)	(\$4,000)	(\$4,000)
<b>Tax Owed</b>	\$3,458	\$1,739	\$1,684	\$1,629
<b>A. Tax Change from Previous Year</b>		-\$1,719	-\$55	-\$55

- Household always takes the standard deduction.
- Taxes fall by about half.

## Kansas Tax Return: Hypothetical Taxpayer, Married Filing Jointly w/ \$75,000 Income, 2 Dependents

Kansas Tax Return	2017	2018	2019	2020
<b>Earned Income</b>	\$75,000	\$75,000	\$75,000	\$75,000
<b>Deduction</b>	\$8,250	\$7,500	\$7,500	\$7,500
Standard Deduction	\$7,500	\$7,500	\$7,500	\$7,500
Itemized Deduction	\$8,250	\$8,250	\$11,375	\$14,500
<b>Personal Exemption</b>	\$9,000	\$9,000	\$9,000	\$9,000
<b>Taxable Income</b>	\$57,750	\$58,500	\$58,500	\$58,500
<b>Tax Owed</b>	\$2,230	\$2,426	\$2,426	\$2,426
<b>Tax Change from Previous Year</b>		<b>\$197</b>	<b>\$0</b>	<b>\$0</b>
Impact from Itemization		\$39	\$0	\$0
Impact from KS Tax Changes		\$158	\$0	\$0
<b>Total Tax Savings</b>		<b>\$1,522</b>	<b>\$55</b>	<b>\$55</b>
<b>Tax Savings from Itemization</b>		<b>\$39</b>	<b>\$203</b>	<b>\$368</b>

Tax Savings from itemization is difference between standard and itemized deduction X 5.25% tax rate.

- Kansas taxes increased
  - But, 80% of that increase was from an increase in KS taxes in 2018.
- Overall, household paying \$1,522 less.
- Itemization only pays off with high deductions

# Fiscal Impact of 25% Increase in Kansas Standard Deduction

- One approach that preserves conformability and benefits taxpayers is to increase the standard deduction. Here the Kansas Department of Revenue estimated a 25% increase in the standard deduction. Millions of dollars in tax year.

	2022	2023	2024
Residents	-\$62.4	-\$63.0	-\$63.7
Non-residents	-\$7.2	-\$7.2	-\$7.3
Total	-\$69.6	-\$70.3	-\$71.0





# Summary

## Tax Policy & Governor's Charge

Policy	Equity & Fairness	Adequacy – Total Next Three Tax Years
Marketplace Facilitators	Yes – Closes Tax Loophole	Yes – Adds \$129.3 Million
Digital Goods Tax	Yes – Closes Tax Loophole	Yes – Adds \$128.1 Million
Individual Income Tax Itemization	No – Benefits 6.6% of taxpayers	No – Costs \$244.8 Million
25% Increase in Standard Deduction	Yes – Benefits all taxpayers	No – Costs \$210.9 Million
GILTI	No – Benefits large, multinational corporations	No – Costs \$71.4 Million
Refundable Food Sales Tax Credit	Yes – Benefits low-income families	No – Costs \$166.6 Million

All Tax Policy requires tradeoffs.  
Those currently proposed are no different.

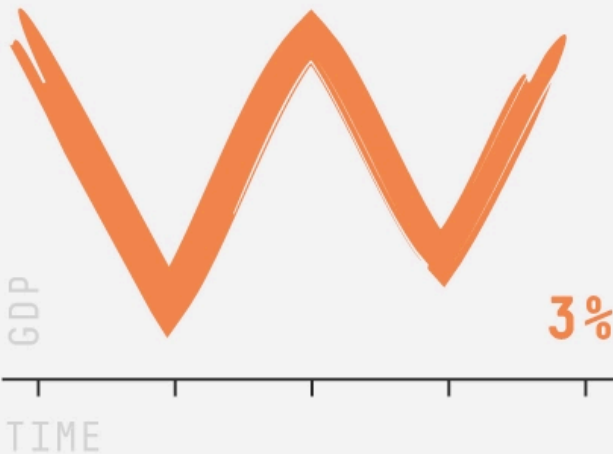
# Economic Recovery & COVID

- State Governments are looking to the Biden Administration to provide much-needed support to provide essential services.
  - Unlike the CARES Act, this support should provide greater flexibility in spending.
- The economy will not fully recover until COVID is under control.
  - That will take longer than we'd like and continue to drain state resources.

# Could the K turn into a W?

## W shape

Sharp, repeated ups and downs



## *State and Local Budget Pain Looms Over Economy's Future*

Providing more aid to struggling governments has become one of the biggest issues tangling up the debate over another pandemic rescue package.

- The Fed chair, Jerome H. Powell, has repeatedly warned that state job cuts could drag down an economic recovery: **“It will hold back the economic recovery if they continue to lay people off and if they continue to cut essential services.”**

Source: August 14, 2020 New York Times. <https://www.nytimes.com/2020/08/14/business/economy/state-local-budget-pain.html?searchResultPosition=1>

# State Government Helps to Stabilize the Economy



Governor Laura Kelly, testified before the House Committee on Financial Services on September 10<sup>th</sup>:

“We need a coherent, top-down strategy that will reassure businesses and Americans that our government has a plan to keep our economy stable until we have a vaccine in place.”

“Severe budget cuts do not create small government, they create failed government.”

Source: <https://www.hutchnews.com/news/20200910/kelly-warns-budget-crunch-will-return-to-kansas-without-Isquosignificantly-morersquo-federal-aid>

Thank You!

**Thank You** *Mahalo*  
*Kiitos*  
*Tack*  
*Grazie* **Thanks**  
*Toda*  
*Obrigado*  
*Takk* **Gracias** *Merci*  
*Danke*