

# *Kansas Economy & Tax Policy Updates*

Donna K. Ginther

Roy A. Roberts Distinguished Professor of Economics  
Director, Institute for Policy & Social Research, University of Kansas  
Research Associate, National Bureau of Economic Research

**April 29, 2021**

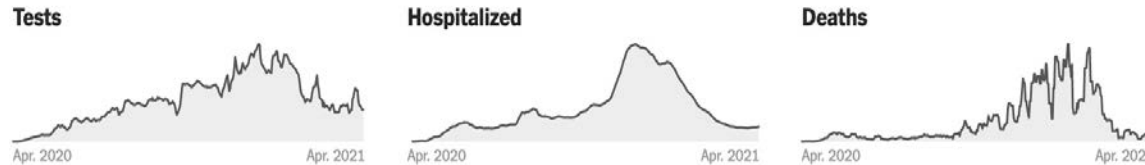
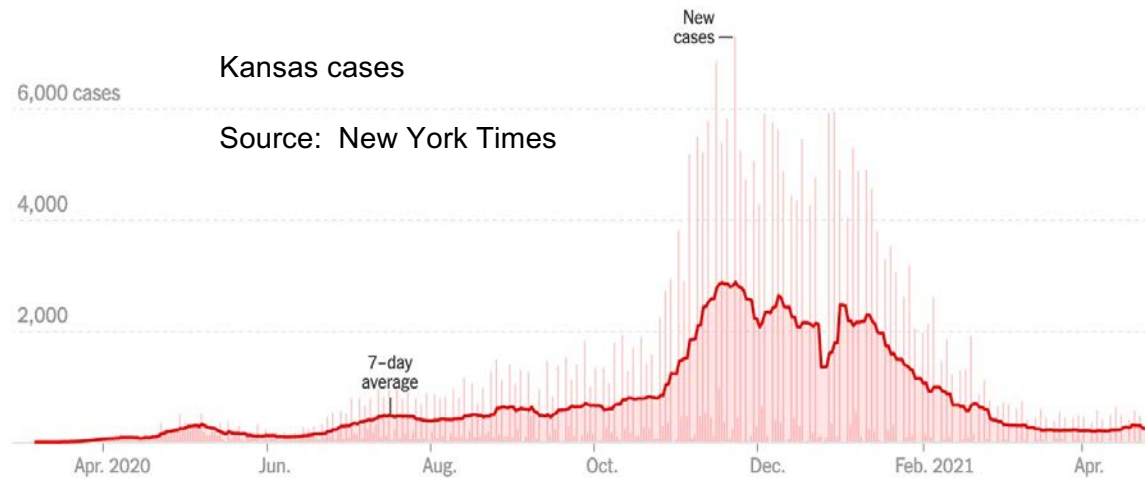
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# Overview

- Update on COVID-19 in Kansas and the United States
- What's happened to the US & Kansas economies in 2021.
- Tax policy considerations.

# Kansas Daily Cases Are Increasing

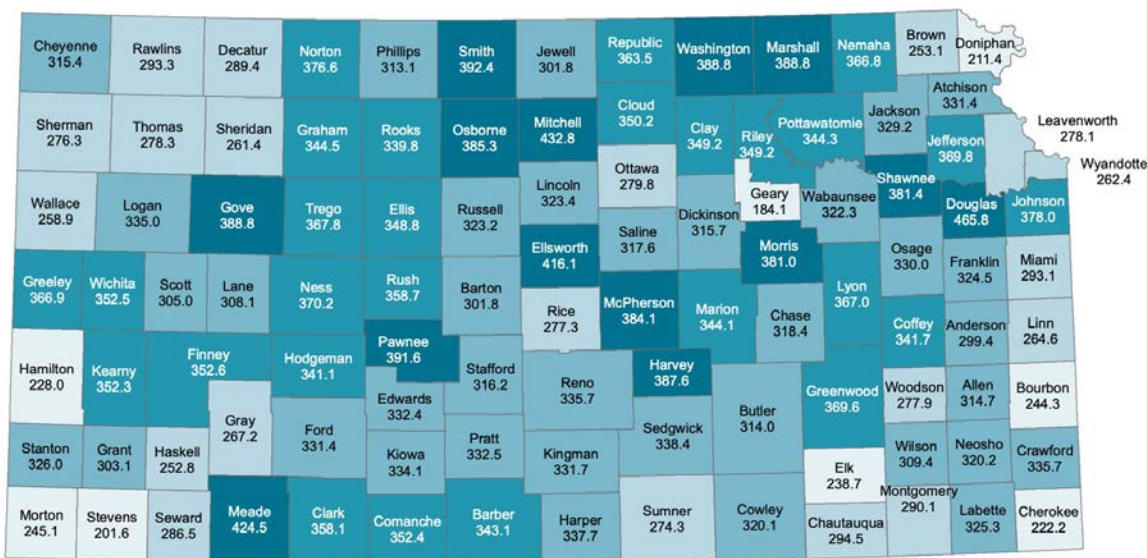
## New reported cases



- The 7-day moving average of new cases is 226 per day.
- This is an increase of 2% in the past 14 days.
- 200 were hospitalized on April 28<sup>th</sup>—an increase of 16%.
- COVID is not over.

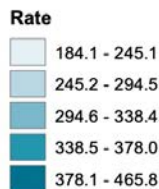
# Covid Vaccines per 1,000 People per County

Rate of People Vaccinated in Kansas, by County of Residence as of April 19, 2021



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

People who have received at least one dose per 1,000 people.



- 37.8% of Kansas population has received at least one shot.
- 77% of vaccine has been used
- Darker colors indicate that these counties have more vaccine per population:
  - Uneven distribution of the vaccine.

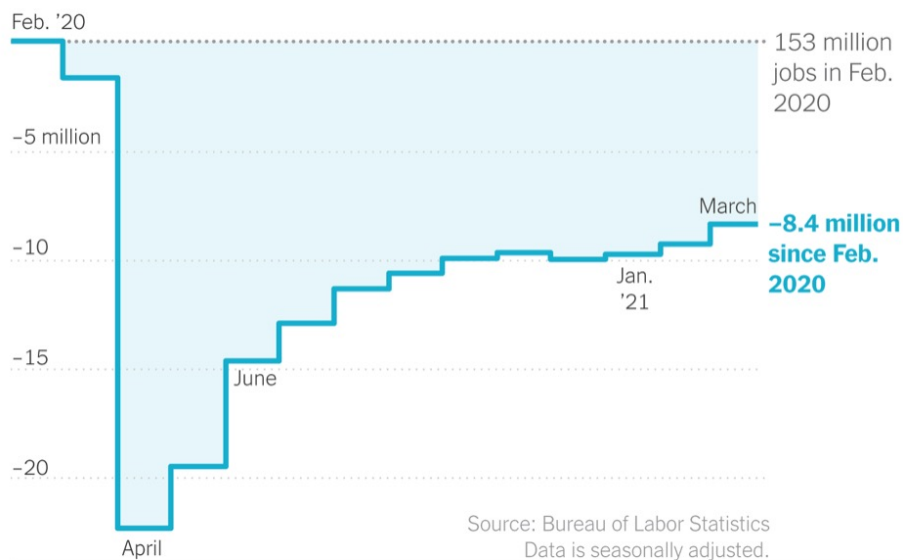
Source: KDHE



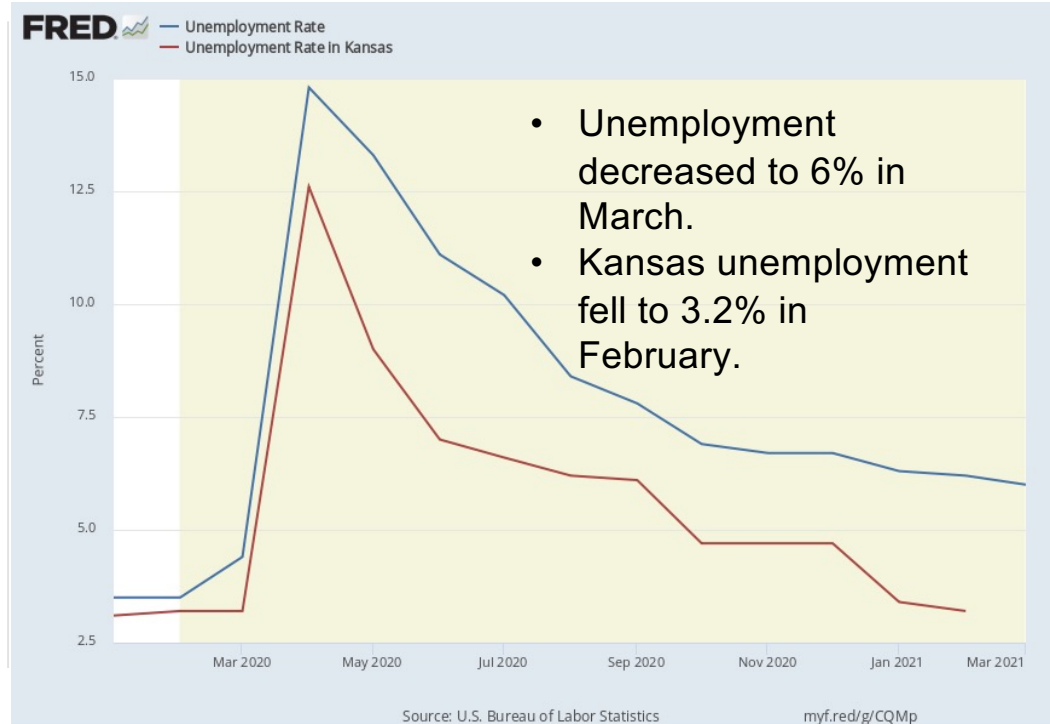
# Employment Situation

# Employment & Unemployment in March 2021

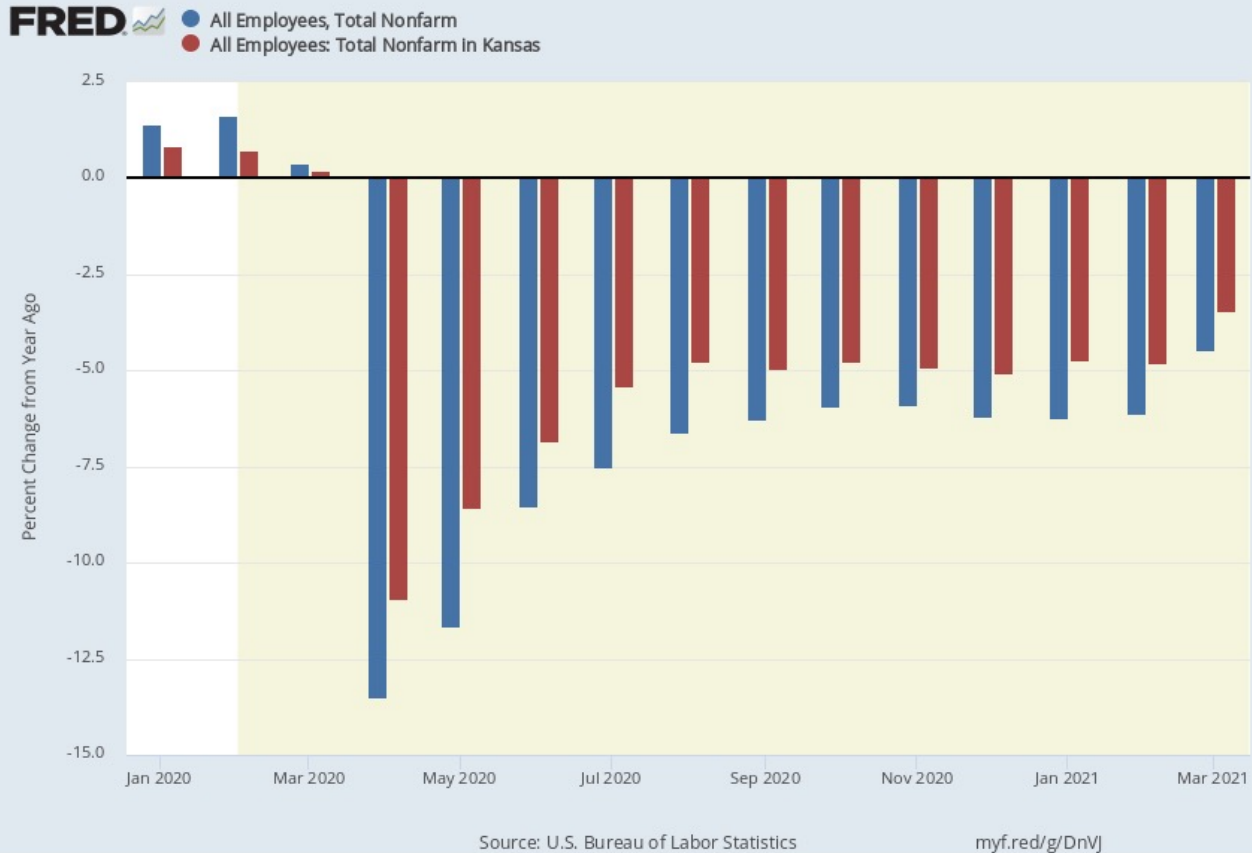
## Cumulative change in jobs since before the pandemic



- Economy added 916,000 new jobs in March. February's numbers were revised up to 416,000. Gains in leisure & hospitality.
- Source: NY Times



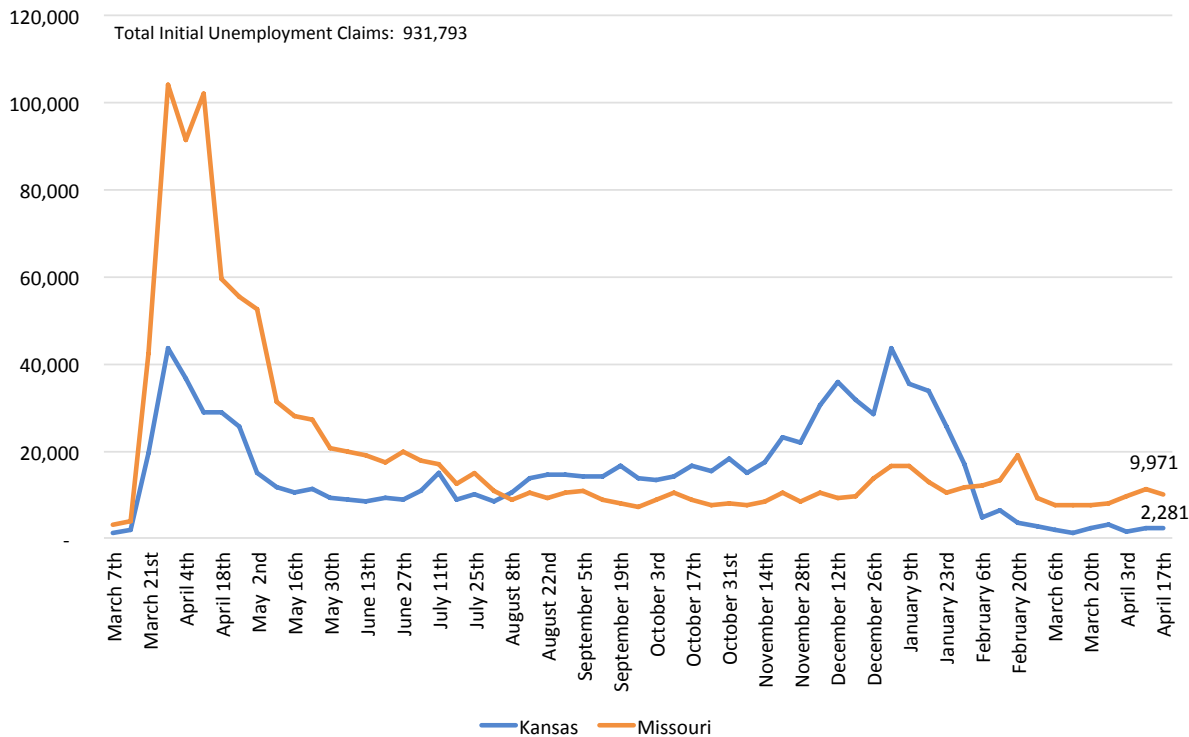
# Employment in Kansas and US Compared to a Year Ago



- Kansas employment was down 3.4% from a year ago in March.
- US employment was down 4.5% compared to a year ago in March.
- The economy added 916,000 jobs in February.
- Now we're only down 8.5 million jobs compared to March 2020.

# Initial Claims are Trending Down

Initial Unemployment Claims in Kansas and Missouri, March 2020 - April 2021

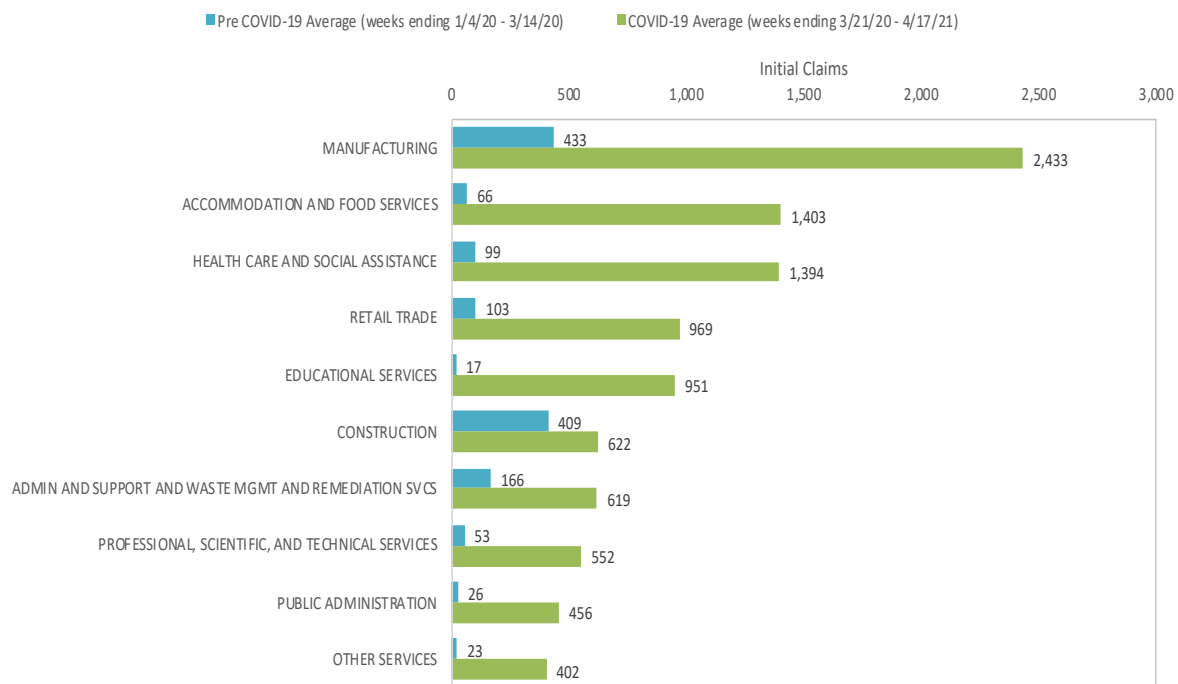


- Kansas continuing and initial unemployment claims remain high.
- There are 2,281 new initial claims as of the week ending April 17<sup>th</sup>.
- State Unemployment ~3.8%.



# Average Initial Unemployment Claims by Industry

**Kansas Initial Claims by Industry**  
Top 10 for Weeks Ending 3/21/20 - 4/17/21

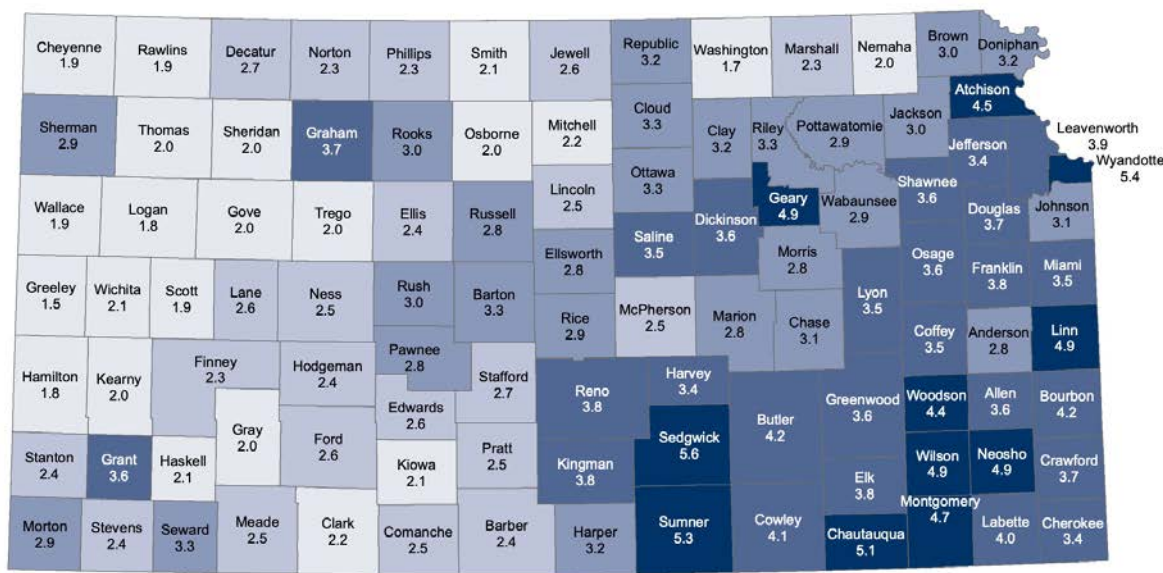


Source: Kansas Department of Labor, Labor Market Information Services; Unemployment Insurance Statistics Program

- Our Five Largest Industries by Employment:
  - Public Administration
  - Health Care
  - Manufacturing
  - Retail
  - Accommodation & Food Service

# March Kansas Unemployment Rate 3.8%

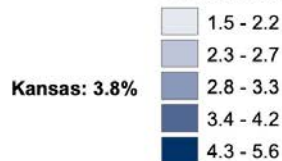
Unemployment Rate in Kansas, by County  
March 2021



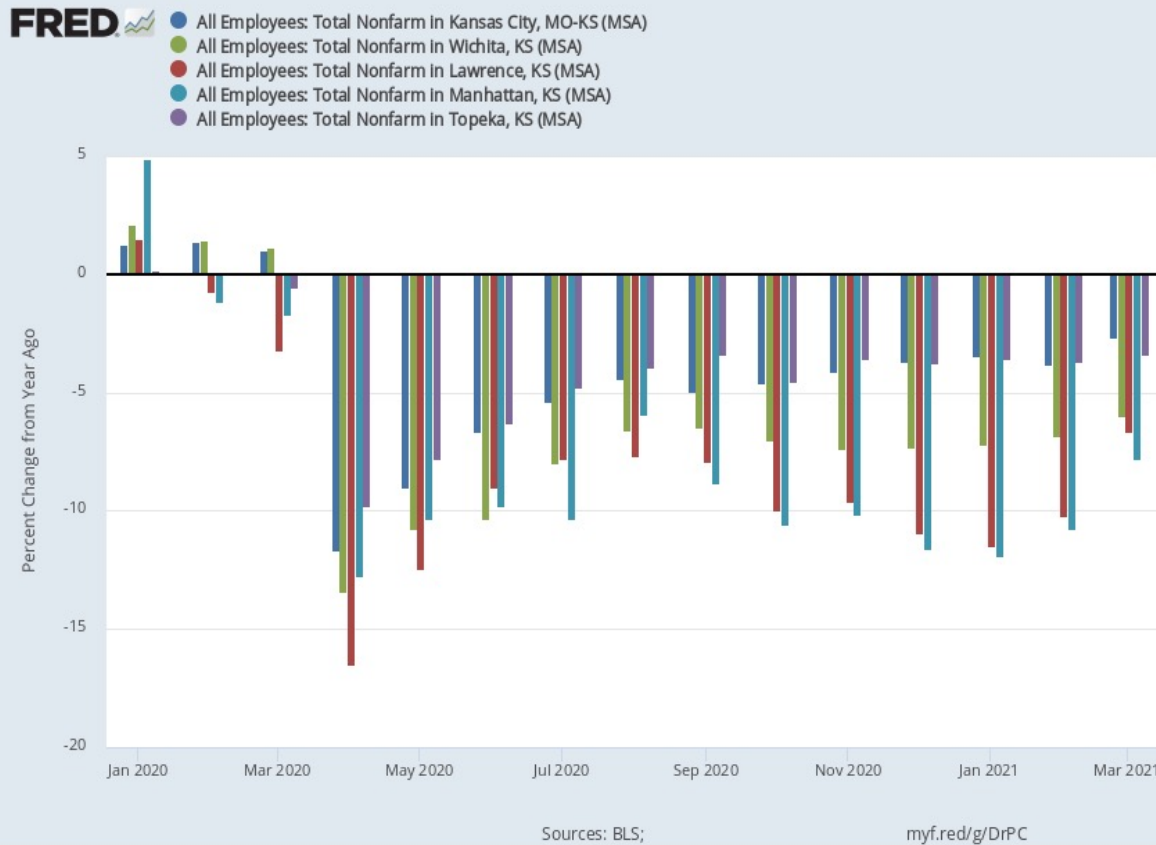
- Uneven impact across the state:
  - Sedgwick County 5.6%
  - Douglas 3.7%
  - Johnson 3.1%
  - Wyandotte 5.4%
  - Shawnee 3.6%
- Unemployment decreased compared to January.

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

Unemployment Rate



# Employment by Major City in Kansas Through March 2021



- Kansas City MSA is down 2.7% from a year ago.
- Wichita is down 6%.
- Lawrence is down 6.6%.
- Manhattan is down 7.8%.
- Topeka is down 3.4%.

# Job Postings in the Wichita and KC Metro Areas

In **Kansas**, as of April 23 2021, total job postings increased by **33.1%** compared to January 2020.

DOWNLOAD CHART

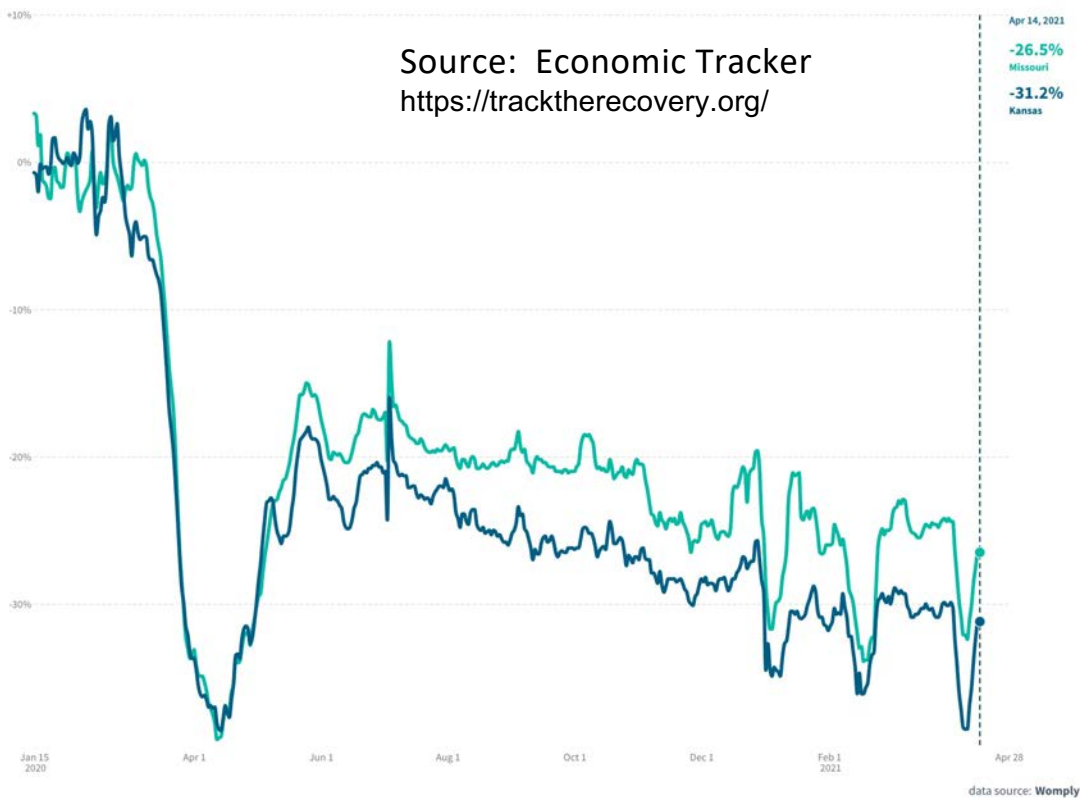


- Job postings in Kansas are up 33% since January 2020.
- They are up 31% in Wichita.
- In the US job postings are only up 21%.

# Kansas Small Businesses are Less Likely to be Open

In **Kansas**, as of April 14 2021, the number of small businesses open decreased by **31.2%** compared to January 2020.

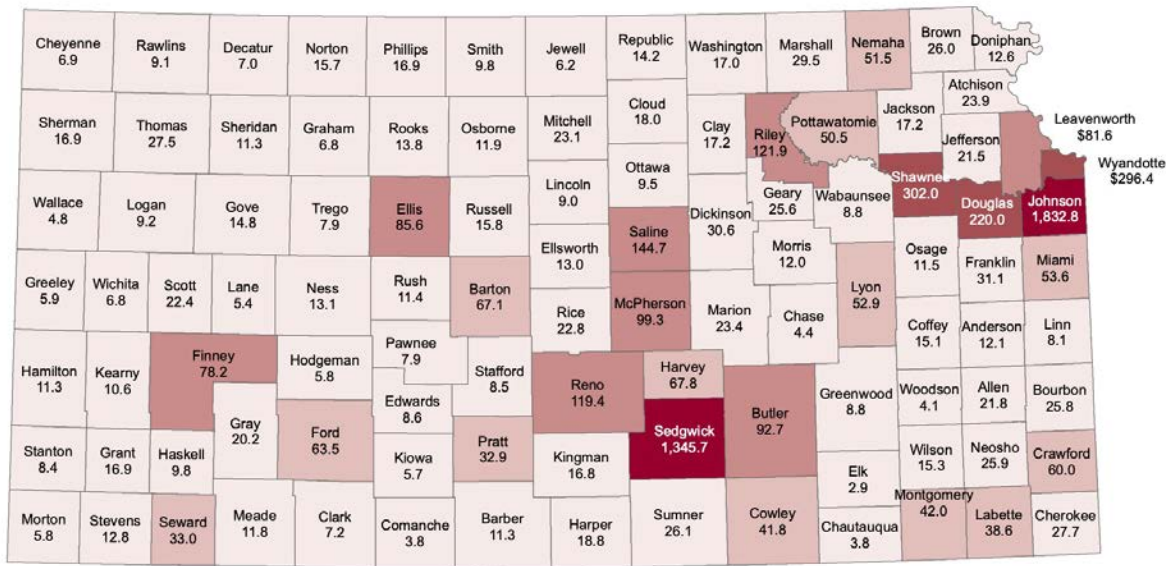
Source: Economic Tracker  
<https://tracktherecovery.org/>



- The number of small businesses open in Kansas City has fallen by 31.2% since January 2020.
- Kansas is doing worse than Missouri -26.5%
  - In the US, the number is -33.6%

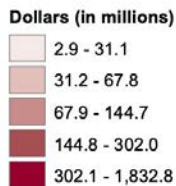
# PPP Loans in Kansas

Amount Loaned via PPP Loans in Kansas, by County, as of March 3, 2021



- Statewide total of \$6.6 billion out of 89,548 loans.
- Johnson County businesses received \$1.8 billion in PPP loans as of March 3<sup>rd</sup>.

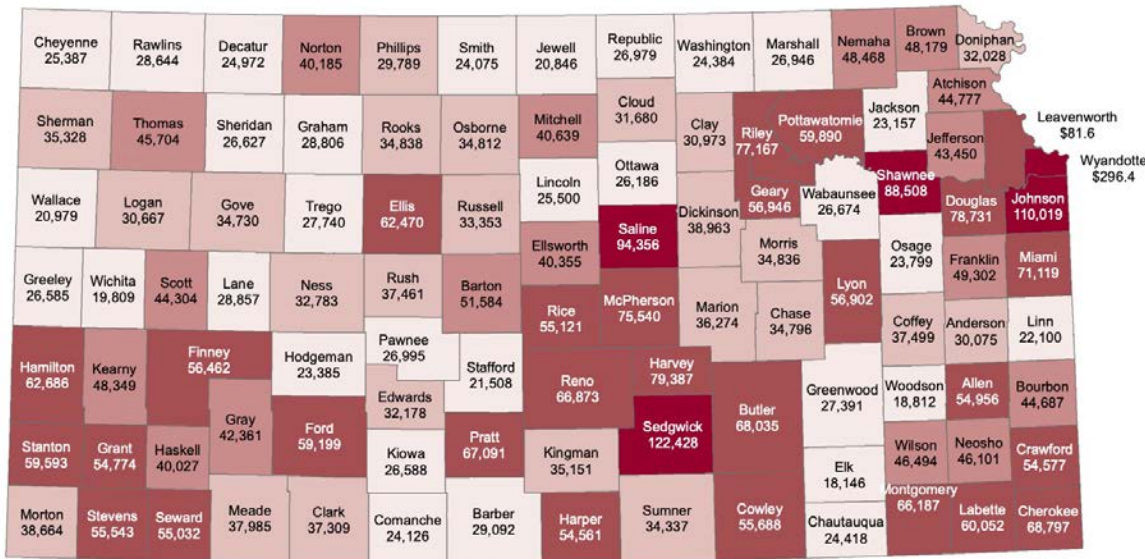
Source: Institute for Policy & Social Research, The University of Kansas; data from U.S. Small Business Administration.



**Kansas Total:**  
\$6,574.1 million  
89,548 loans

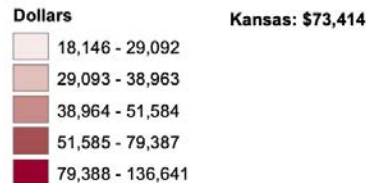
# Average Amount of Kansas PPP Loans

Average Amount per PPP Loan in Kansas, by County, as of March 3, 2021



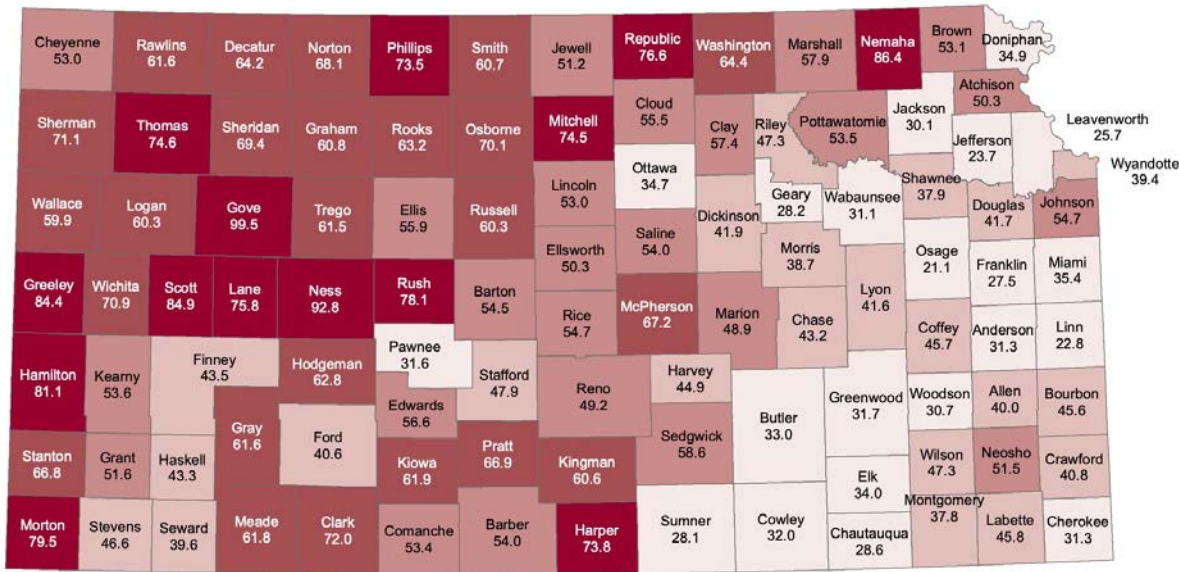
- Ranged from \$18,146 in Elk County to \$122,428 in Sedgwick County.
- Statewide average \$73,414.

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



# Jobs Retained Through PPP Loans

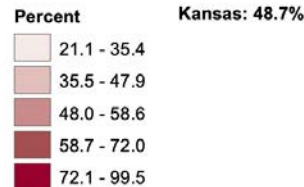
Jobs Retained with PPP Loans as a Percentage of Civilian Labor Force in Kansas, by County, as of March 3, 2021



- Jobs retained through PPP loans ranged from 25.7% to 58.6% of the civilian labor force in Kansas' six largest counties.

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

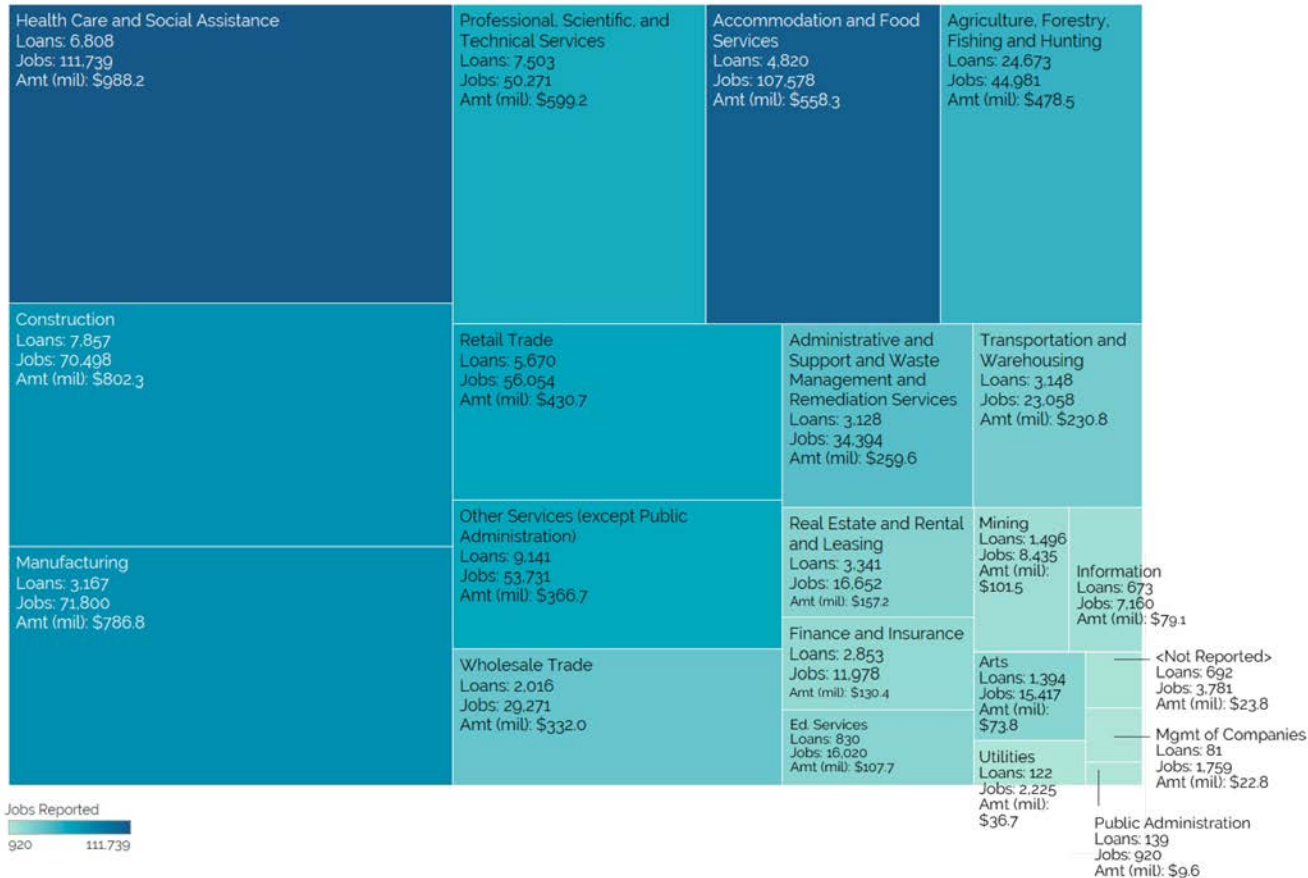
Civilian labor force estimates from February 2021.





# PPP Loans by Industry

PPP Loans by Industry in Kansas through March 3, 2021



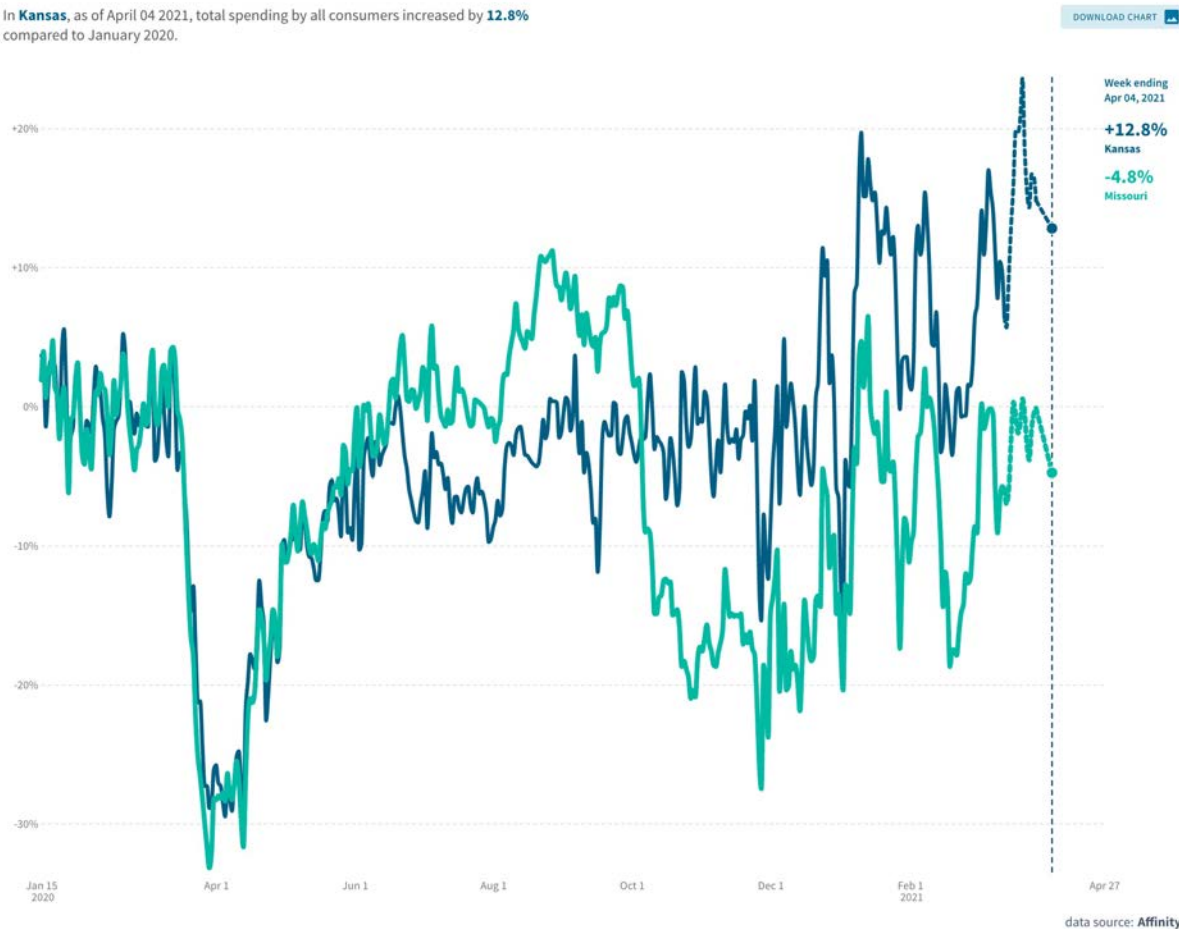
- The Healthcare and Social Assistance industry received \$988 million in PPP loans, retaining 111,739 jobs
- Manufacturing: \$786 million retaining 71,800 jobs.
- Accommodation and Food Services: \$558 million retaining 107,578 jobs.



# How Does Kansas Compare?

# Kansas Consumption is Increasing

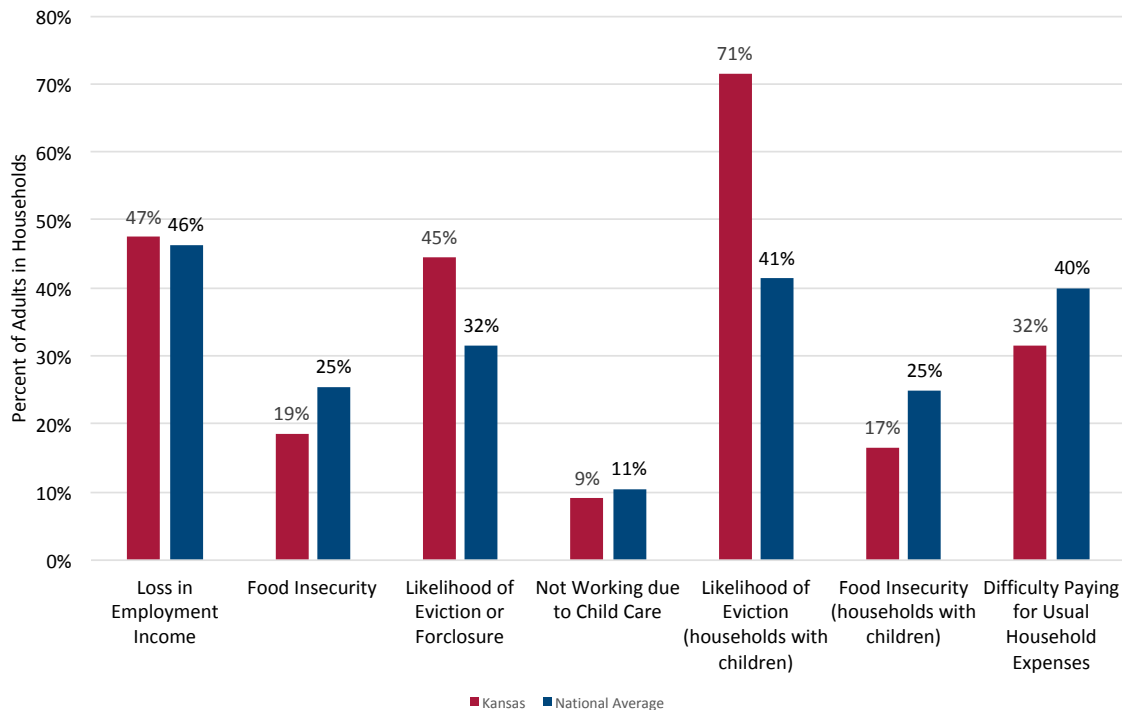
In **Kansas**, as of April 04 2021, total spending by all consumers increased by **12.8%** compared to January 2020.



- Kansas consumption expenditures are better than in Missouri and Iowa.
  - Kansas up 12.8%
  - Missouri down 4.8%
  - US up 10%
- Starting to see evidence of the Stimulus checks.

# Kansas and US Household Comparison March 29th

US Census Household Pulse Survey



- 47% of Kansas households faced loss in employment income
  - 71% of Kansas households with children report likely or somewhat likely eviction
  - 17% of Kansas households with children are food insecure

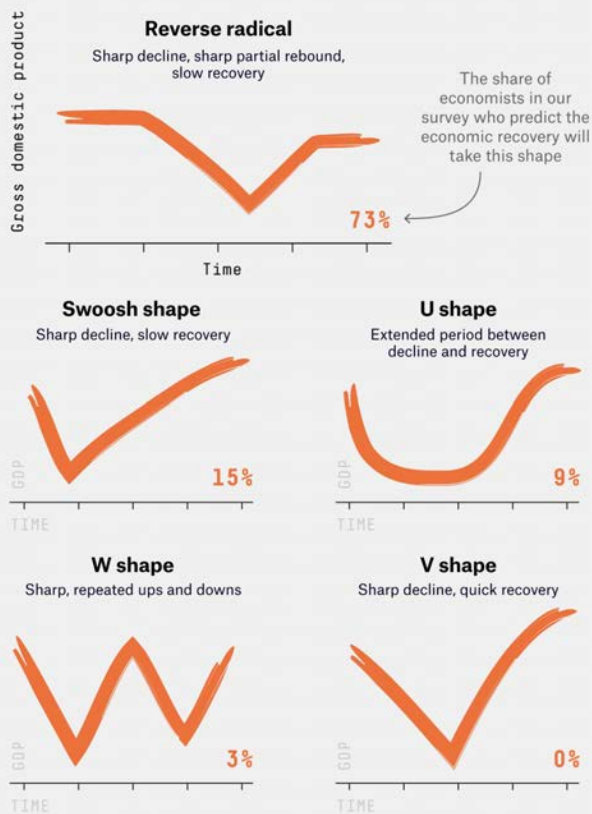


# Signs of the Recovery

# 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.
- Now economists are talking about K-shaped recovery

### Economy

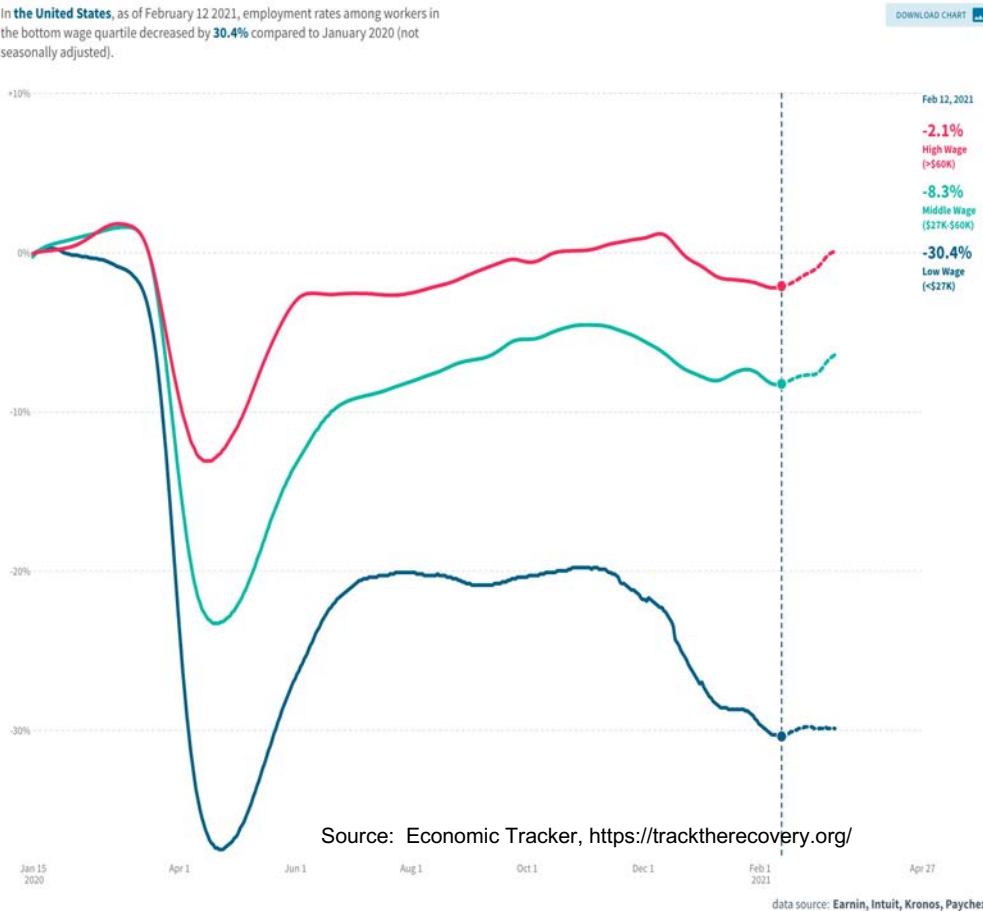
## The recession is over for the rich, but the working class is far from recovered

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

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

# Is This a K-shaped Recovery? It is in the US

In the United States, as of February 12 2021, employment rates among workers in the bottom wage quartile decreased by **30.4%** compared to January 2020 (not seasonally adjusted).



As of February 12<sup>th</sup>:

High Wage Jobs down -2.1%

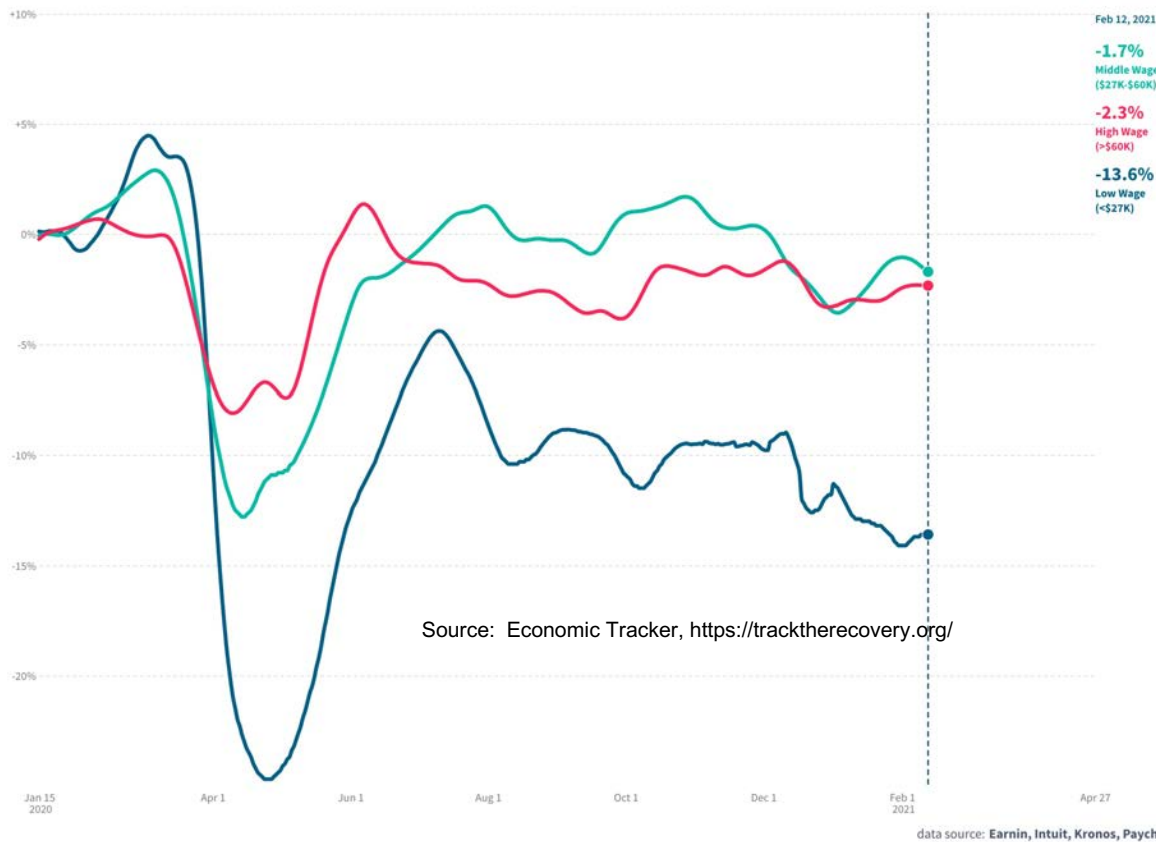
Middle Wage Jobs down  
-8.3%

Low wage jobs down -30.4%

# Is This a K-shaped Recovery? But Not in Kansas

In **Kansas**, as of February 12 2021, employment rates among workers in the bottom wage quartile decreased by **13.6%** compared to January 2020 (not seasonally adjusted).

DOWNLOAD CHART



As of February 12<sup>th</sup>:

High Wage Jobs down -2.3%

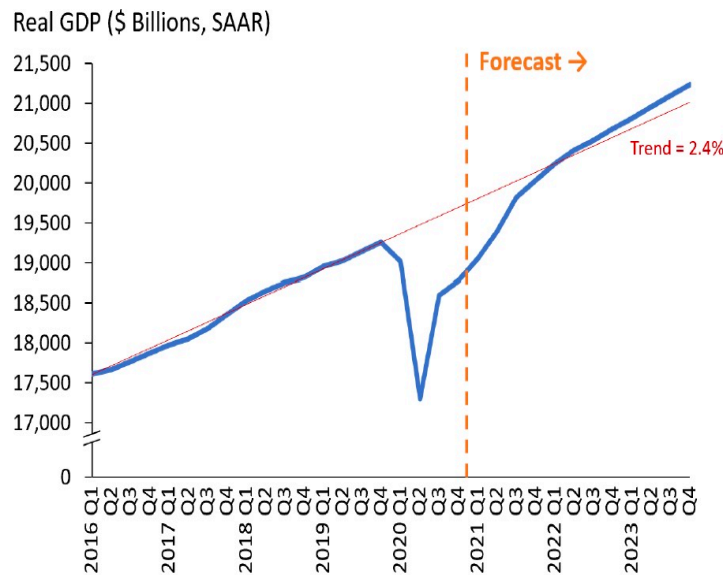
Middle Wage Jobs down -1.7%

Low wage jobs down -13.6%



# The Overall Recovery Will Occur Later this Year

Real GDP will reach its 2019 peak by the end of '21 Q2 and its prior trend by '22 Q1



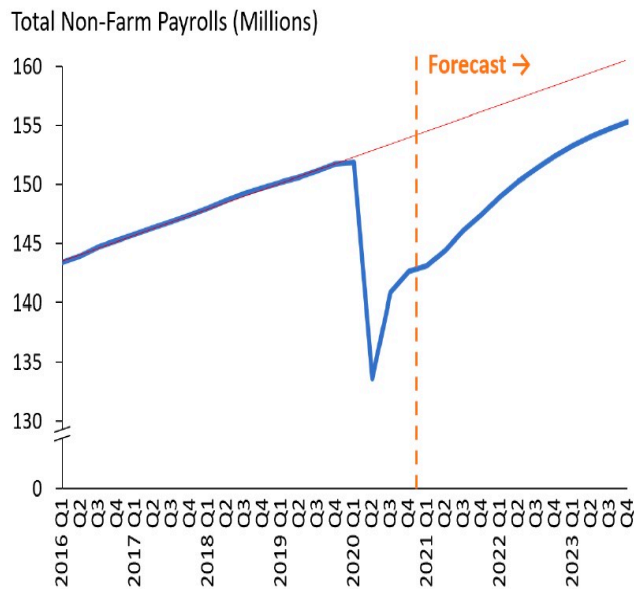
Source: Bureau of Economic Analysis and UCLA Anderson Forecast

UCLA Forecasts a quick recovery. There is pent up demand for services that will grow as more people get vaccinated.

People who didn't lose their jobs have excess savings.

# Employment will Take Much Longer to Recover

Recovery in payroll employment will accelerate in '21 Q2, adding ~500K+ jobs per month through mid '22



Source: Bureau of Labor Statistics and UCLA Anderson Forecast

According to UCLA Forecast, it will take until 2024 for all of the jobs lost due to COVID to return.

Labor Force participation is currently at 1976 levels.

Many Service sector jobs will not return.

## What's Driving the Recovery

- American Rescue Plan is pumping more money into households and has provided much needed support for state and local governments.
- COVID cases have plateaued as more people have gotten vaccinated.
- Pent up demand for a return to “normalcy.”

## What Will Slow the Recovery?

- COVID variants that reduce vaccine efficacy
  - If people don't get vaccinated in high enough numbers, mutations may take hold and set us back.
    - **India is a cautionary situation.**
  - New variants are making younger people sick.
  - It may be too soon to ease COVID restrictions.
- Small businesses that closed may never return.
- Service sector jobs may not return.



# Tax Policy Update

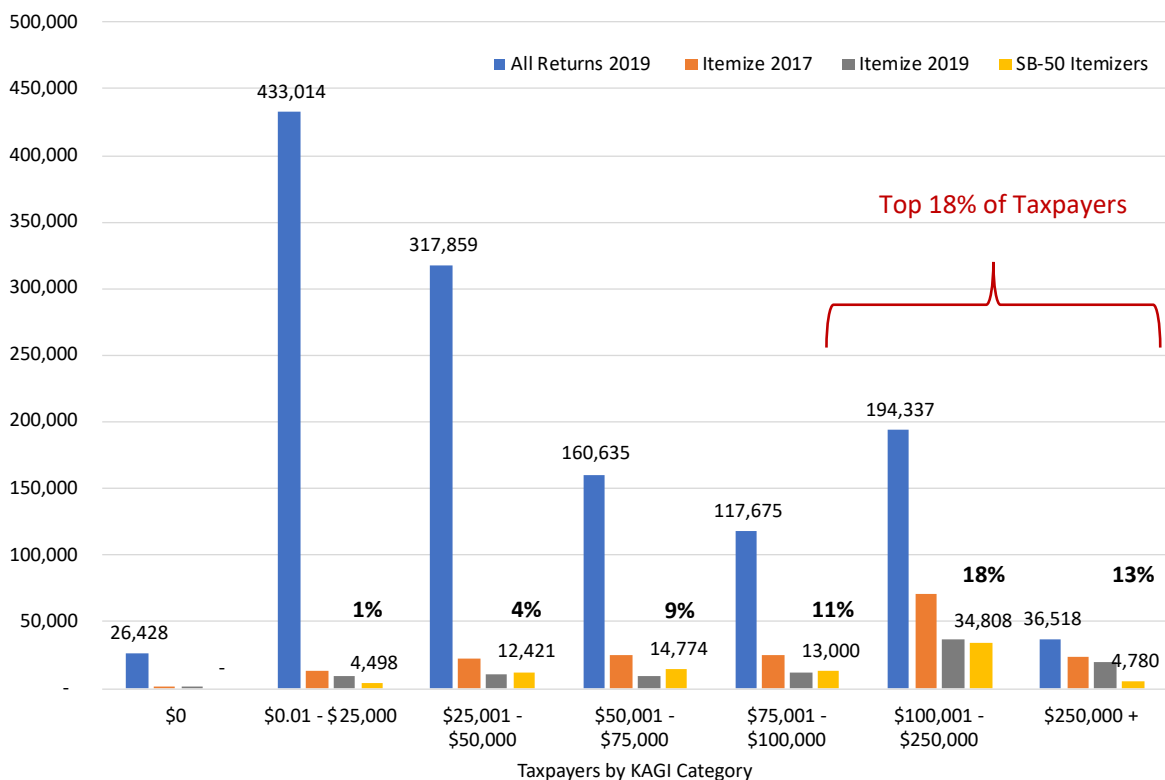
## The Problems with Decoupling in SB-50

- Decoupling from federal tax law will create unintended consequences.
- Decoupling only moves in one direction →
  - SB-50 did not decouple from the \$360 million PPP provision.
- Decoupling only works for the wealthiest taxpayers and corporations.



# Hypothetical Taxpayers Who Benefit from Itemization

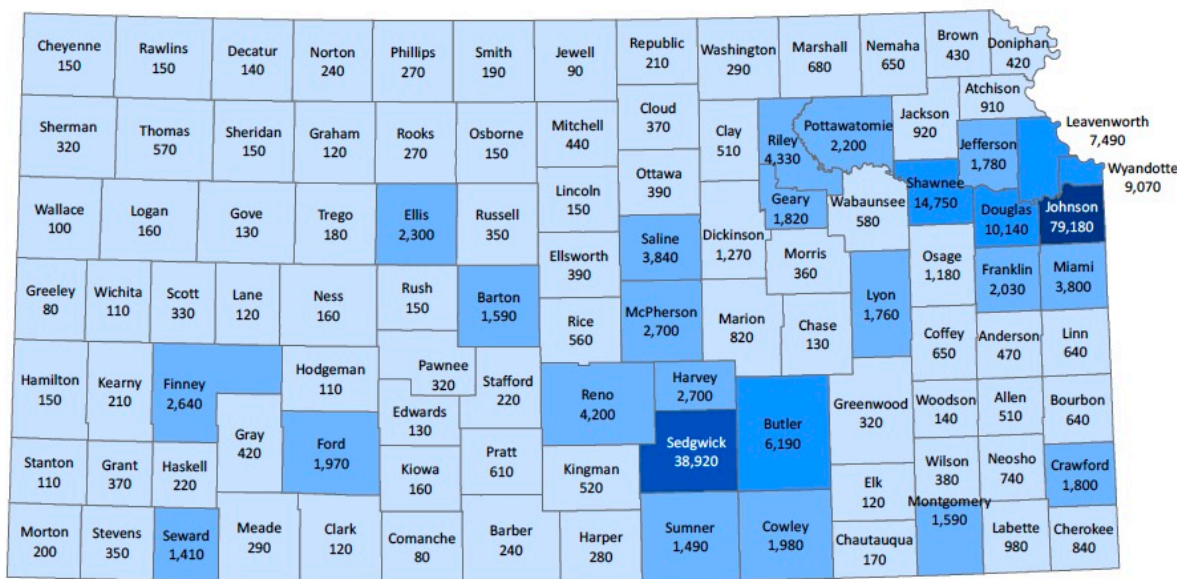
Share of Taxpayers by KAGI Income Category and Those that Itemize 2017 & 2019



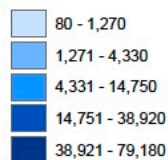
- SB-50 Itemizers are difference between those who Itemized in 2017 and Itemized in 2019.
- Median Taxpayer is \$21,442 KAGI
  - 1% of filers below the median will benefit from itemization.
- Percentages are estimates of those within KAGI bracket who will be new SB-50 itemizers.
  - Benefits flow to the top 18% of taxpayers

# Who Benefits from Itemization by County?

Estimated Number of Additional Taxpayers who could Itemize Under SB50



Source: Institute for Policy & Social Research, The University of Kansas; calculated based on data from Internal Revenue Service, 2018 Tax Year.

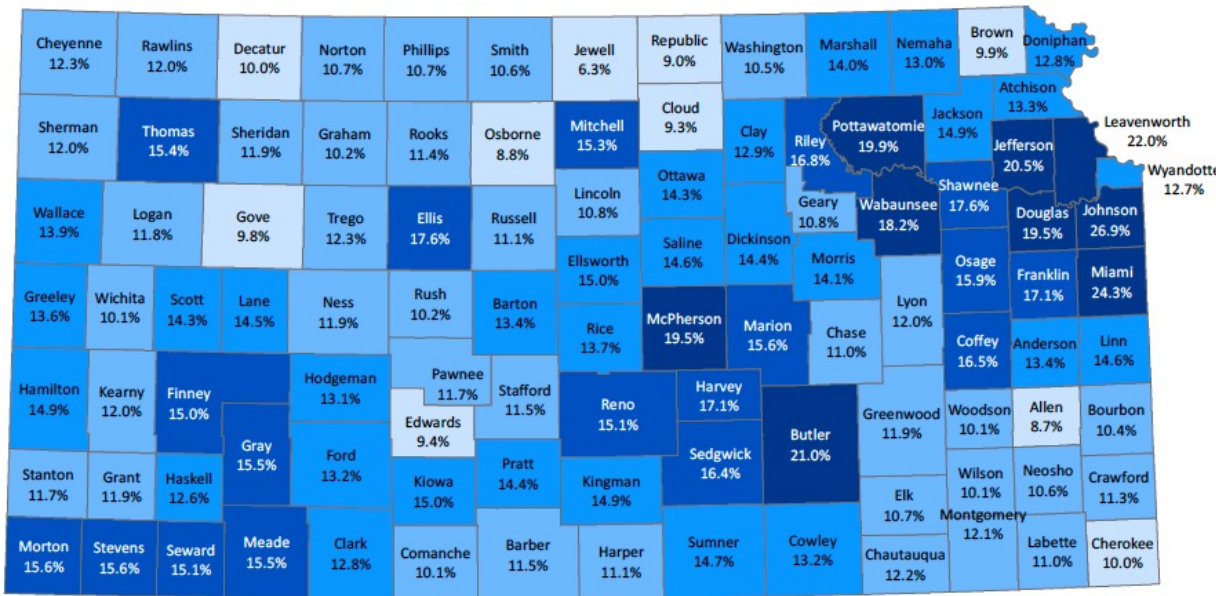


- SB-50 Itemizers are difference between those who Itemized in 2017 and Itemized in 2018 on their US Tax returns.
- In some counties (light blue) less than 100 people would benefit from itemization.
- Johnson and Sedgwick County residents would benefit the most.



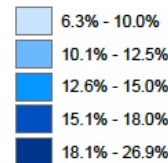
# Who Benefits from Itemization by Share of County Residents

Estimated Percentage of Taxpayers who could Itemize Under SB50



- Adjusting for population, in some counties, less than 10% of tax filers would be able to itemize.
- Johnson and Miami county residents have the highest share of tax filers who could itemize.

Source: Institute for Policy & Social Research, The University of Kansas; calculated based on data from Internal Revenue Service, 2018 Tax Year.



# GILTI: A Select Few Benefit



- Global Intangible Low-Taxed Income (GILTI) is taxed at the federal level.
  - GILT Definition 1: Gold or Something that resembles gold on the surface.
  - GILT Definition 2: A young female swine.
- Fiscal note in FY 2022 GILTI will cost - \$24.2 M
- 773 corporations paid almost 91% of corporate taxes.
- GILTI allows a select few corporations to become the tall hogs at the trough.



# Alternatives to Consider

# The Governor's FY2022 Budget Assumptions

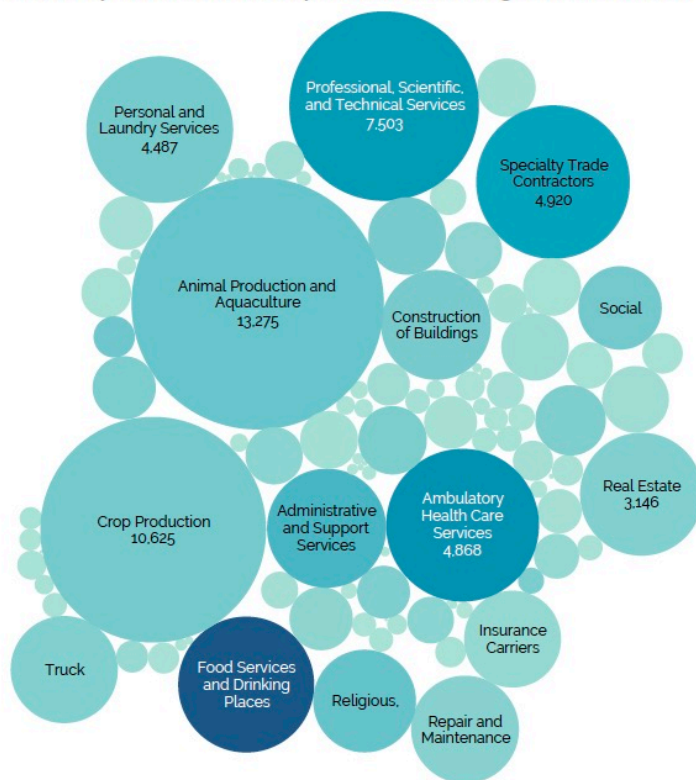
- Secretary Proffitt indicated that the starting point for agencies was to submit a 10% budget reduction.
- Given the increase in funds from the April CRE, it makes sense to revisit budget cuts and restore agencies to full funding.

# Tax Cuts and the American Rescue Plan

- A provision in the ARPA requires that states cannot use ARP money to fund tax cuts or contributions to their public employee pension plans.
- A state that does cut taxes risks losing every federal dollar spent in violation of the rule.
  - Thus, any Kansas tax cuts could cost the state double:
    - Decreased revenue from the state tax cut
    - A dollar-for-dollar reduction in ARPA funds coming to the state.

# PPP Loan Tax Deduction is Expensive

Number of PPP Loans by Detailed Industry in Kansas through March 3, 2021

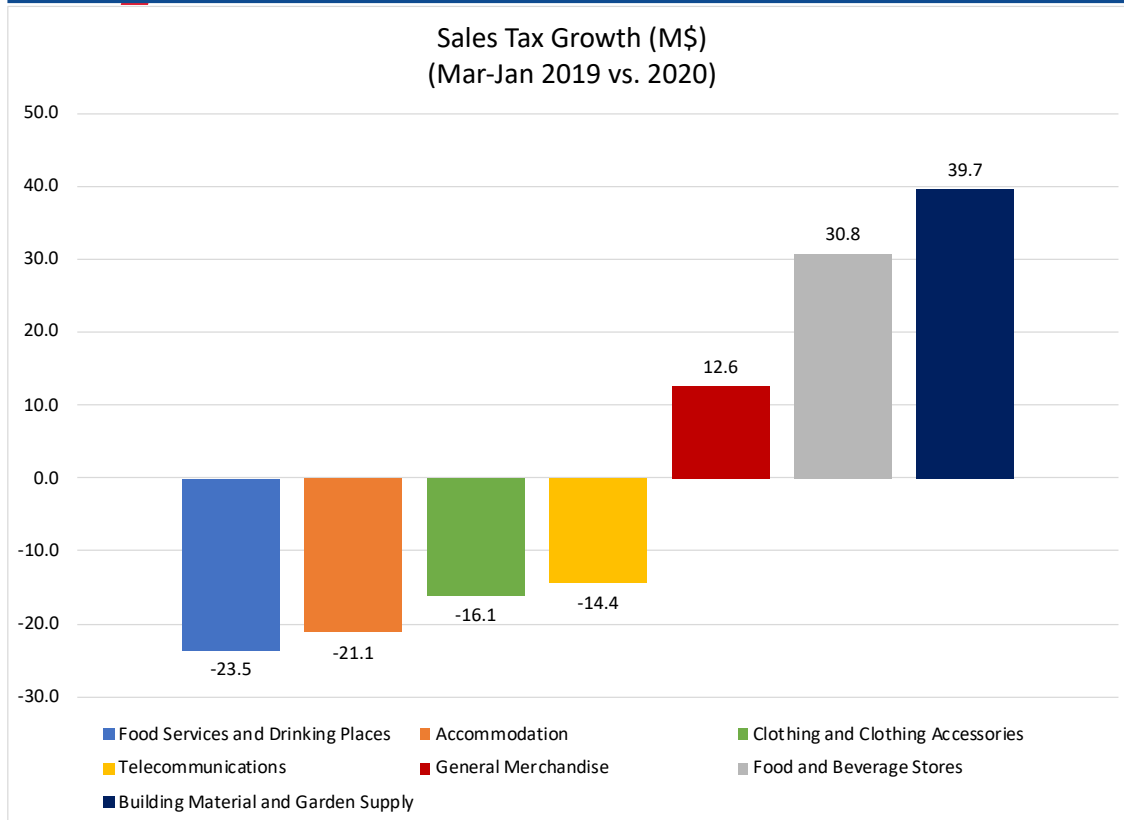


Jobs Reported  
3 91,859

- The \$360 million fiscal note is a lot of money to pay to conform to the federal tax code.
- A large number of loans went to animal agriculture and crop production.
  - Those loans did not support a lot of jobs.

Sum of Number of Records and Naics3Desc. Color shows sum of Jobs Reported. Size shows sum of Number of Records. The marks are labeled by sum of Number of Records and Naics3Desc.

# Sales Taxes from Selected Industries March-Nov



- Sales tax revenue grew for groceries and building supplies.
- Sales tax revenue fell for food services, accommodation, clothing and telecommunication.
- Sales taxes on food grew by \$30.8 million between 2019 and 2020.
- Kansas taxes food at a minimum of 6.5% and in some places as much as 10%
- Food sales taxes are regressive.

# 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.

Thank You!

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