



News From The Capitol

Representative Don Hineman

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Governor's Tax Plan Revealed

With the beginning of the 2012 Kansas legislative session last Monday, Governor Brownback's [State of the State address](#) on Wednesday, and release of the Governor's [budget recommendation](#) on Thursday, some of the major issues for consideration by the Kansas legislature are now beginning to take shape.

One of the most important and far-reaching issues is tax reform. The Brownback administration plans to make a substantial cut to income tax rates, and then gradually reduce even more in the future as the state can afford to do so. The goal is to completely eliminate income tax, both personal and corporate, at some point in the future.

The initial cut would reduce individual income tax rates and move from three brackets to two – a 3 percent rate for income under \$15,000 (\$30,000 for married filing jointly); and a 4.9 percent rate for income \$15,000 and over (\$30,000 for married filing jointly). Current rates are 3.5 percent, 6.25 percent, and 6.45 percent.

This is a very ambitious proposal, and the initial reduction to the tax rates would be quite expensive. To pay for it, Governor Brownback is proposing the following:

- Keep the state sales tax rate at 6.3% instead of reducing to 5.7% on July 1, 2012 as is currently mandated by statute.
- Eliminate itemized deductions for things such as mortgage interest and charitable contributions.
- Eliminate subtraction modifications for 529 education savings programs and long-term care contract premiums.
- Eliminate these tax credits:
 1. Abandoned well plugging credit
 2. Adoption credit
 3. Agritourism liability insurance credit
 4. Alternative fuel tax credit
 5. Angel investor credit
 6. Assistive technology contribution credit
 7. Child and dependent care credit
 8. Child day care assistance credit
 9. Community service contribution credit

10. Disabled access credit
11. Earned income credit
12. Environmental compliance credit
13. Historic preservation credit
14. Individual development account credit
15. Law enforcement training center credit
16. National Guard employer health insurance credit
17. Research and development credit
18. Single City port authority credit
19. Small employer health benefit plan credit
20. Swine facility improvement credit
21. Telecommunications credit
22. Temporary assistance to families contribution credit
23. Venture capital and local seed capital credits

- Eliminate the two-year severance tax exemption on new pool oil and gas wells, with the exception of oil wells that generate fewer than 50 barrels a day
- Eliminate individual income tax on non-wage business income (as reported by LLCs, S-corporations, and sole proprietorships on lines 12, 17, and 18 of the federal 1040 individual income tax return)

The Pros of the Plan

Kansas income tax rates are higher than our neighbors, and there is no doubt that we can gain a competitive advantage by finding ways to reduce the rates and thereby expand the Kansas economy and grow jobs. If the proposed cut were to be enacted, the marginal rate for a taxpayer with \$50,000 of income would drop from 6.45% to 4.9%. That rate would put Kansas second in the region, and would compare very favorably with our neighbors. Colorado's rate is 4.63%; Nebraska's is 6.84%; Missouri's is 6.0% and Oklahoma's is 5.5%.

It is also good economic theory to level the playing field for everyone by reducing rates rather than clutter up the tax code with numerous credits and deductions that favor particular industries or individuals. Government cannot accurately pick winners and losers, and excessive credits and deductions can distort market signals and produce an inefficient economy that produces harm to all.

The Cons of the Plan

Practically every Kansan can find something on the list that they will miss if the plan goes into effect, and some will claim they can't make do without the credits or deductions they are now receiving. Here are a few examples:

The point has been raised that eliminating credits that help disadvantaged Kansans (child care, earned income credit, temporary assistance to families) increases the potential that these families wind up costing the state even more through other assistance programs such as Medicaid.

The housing industry is weak, both nationwide and in Kansas. If mortgage interest is no longer deductible, how large is the negative effect on the Kansas housing market and associated construction industry?

The expanded severance tax collections are aimed at the new oil boom in south-central Kansas, but much of Kansas is wildcat country, where hitting a new well is a gamble and production can decline rapidly. Is it possible that we could actually discourage oil exploration in Kansas by taxing new pool production during the early years?

In preliminary discussions in Topeka, it appears that no one has a good handle on how large the price tag might be on elimination of income tax on non-wage business income from LLCs and S-corps. I believe the number could be enormous, and regardless of what the exact number is, making this type of income tax-exempt could cause a literal stampede of Kansans moving to reconfigure their businesses into LLCs or S-corps. Call it the cpa/attorney full employment plan!

I was one of the legislators who took the drastic step of voting for a temporary sales tax increase in 2010 as a necessary measure to shore up declining state revenues during the depths of the recession. That was not an easy vote, and those of us who made that vote were vilified for it by certain individuals and special interest groups. Incredibly those same parties are now calling for that sales tax increase to be made permanent! The tax increase was intended as a temporary measure, and my vote in favor of it was predicated on a July 1, 2012 sunset. The fact is, Kansas must be competitive with our neighbors in **all three** of the major tax sources... income, sales, and property. Allowing the state sales tax rate to drop to 7.6% would make the combined Kansas state and average local rate equivalent to the rate in Colorado and Missouri and lower than Oklahoma and Texas. Only Nebraska would have a rate lower than Kansas.

In addition, the sales tax is an important tool for local government as they work to improve their own communities. An excessive rate at the state level makes it tougher for local governments to access this important tool.

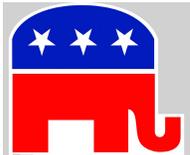
All of these moving parts will make it extremely difficult to determine the proper path for tax reform. This is not a trivial decision and it must be deliberated carefully. Which brings us to....

**2012 Issues Survey Coming
Soon**



The 2012 session will be a challenging one, and it is important to me that I understand what the residents of the 118th District are thinking on the important issues we will face. I will soon be sending out my 2012 Issues Survey, and I encourage response from anyone living in the 118th.

To make the survey results truly representative of the thoughts of the residents of the 118th District I need a large response. **If you have friends, family, or associates who might be interested in completing the survey and receiving the newsletter** I would appreciate your forwarding their contact information to me.



On Saturday, March 10 the Kansas Republican Party will be conducting the Presidential Preference Caucus in about 100 locations throughout the state, including one in each county in the 118th District. Participation is open to any registered member of the Kansas Republican Party, and I encourage your attendance. No Republican candidate will have enough votes to lock up the party nomination before the primaries in other states in April, so your participation will be important! Go to the [website](#) of the Kansas GOP for more information and then click on the "Caucus: March 10" drop-down menu to learn more. Note that this will be a good "test-run" to make sure your credentials are in order for Kansas' new voter ID law before voting in primary and general elections later this year!

During each legislative session every legislator has the privilege of hosting young people who wish to serve as a legislative page for a day. This year I will be allowed four pages on Monday, February 4, and four more pages on Monday, March 12. Please contact me for details if you know of any junior high or high school student who would like to serve.

Sign up [here](#) to receive my FREE legislative newsletter.

Words to Live By

Cowboy Logic: Don't get mad at somebody who knows more 'n you do. It ain't their fault.

Quote of the Week: The only people with whom you should try to get even are those who have helped you. – John E. Southard

Sermon in a Sentence: You cannot be envious and happy at the same time.