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There was noticeably more activity in this second week of the Kansas Legislative session as compared to past sessions. Committees are still gearing up and at this point, their meetings are still relatively short. Bill introductions, filing of reports as required by statute, etc. and floor action have been non-existent. Real action is taking place in the offices of the Governor, Revenue Secretary Nick Jordan and legislative leadership. Pretty much what you would expect with a rather large and bold agenda that is predicated to fundamentally change the way Kansas government operates – from how it collects revenue to how much and how it spends that revenue. There are proponents, opponents and then those that just aren't sure. And the issues are complex. Is tax reform needed? If so, is the governor's plan the way to accomplish it, or is Senate Bill 1 from last year a more "politically palatable" approach? Should the state's employee pension plan, with a \$9B unfunded liability, move from defined benefit to defined contribution like a 401K plan? Do you impose that on everyone, including current members of the pension plan or just new employees? Oh, and it's an election year. There are 22,000 state workers and they vote! Not only is it an election year, but it's also time to redraw legislative boundaries. That issue alone creates an element that impacts every negotiation unlike in any other year. Of course, there's debate on reforming Medicaid and moving to a managed care approach, changing how schools are funded, and for the first time in years, a carryover of significant cash from the last fiscal year. That carryover can be banked for a rainy day, used to buy down taxes, or do you give it all to K-12 education?

TAX REFORM

As reported last week, the Governor released his tax plan for review by all Kansans. The tax brackets shrink from three to two. The top rate drops from 6.45% to 4.9% and the bottom rate drops to 3%. And business income for most Kansas businesses would be exempt from Kansas income tax. It's how you pay for that tax reduction that has stirred up different interest groups. Most credits and deductions go away under the plan. That's a big deal to a lot of folks. Builder's and Realtors want the mortgage interest deduction left intact. Tech companies want the Angel Investor Credit left alone and developers want Historic Preservation Credits to remain. The list goes on and on. However, the big one which is a bit of a political mine field, is the Earned Income Tax Credit (EITC). That credit basically gives cash back to the poorest Kansans. Former Governor Graves liked it at the state level and President Reagan

liked it at the federal level. Kansas is somewhat unique in that it is one of a handful of states that imposes sales tax on food items. One of the ideas behind the EITC is that the state's poor should get that money back. After doing the math on the overall tax plan, it becomes apparent that the state's poorest citizens will pay a lower income tax rate, but due to the loss of the EITC they will actually pay more in taxes. While the Governor has proposed to offset this by actually spending more on certain social service programs aimed at helping bring people out of poverty, it is the loss of the EITC that may be bringing on the most water. Children's advocacy and church groups may not invest a great deal of money in the political process, but they have political clout that transcends political party identity and they do not like the loss of the EITC.

What does it all mean? Well, there will undoubtedly be plenty of debate and consideration given to reducing or even eliminating income taxes. But what it ends up like is yet to be seen. There will most likely be several plans proposed and debated. Maybe the Governor can pass his plan as is. Maybe he gets it passed by reinstating the EITC. However, this morning, House Republicans, under the leadership of Speaker O'Neal, introduced a plan that incorporates some of the key provisions from the Governor's plan, but also looks a lot like Senate bill 1 from last year. Remember, Senate Bill 1 is rather simple. It does not deal with credits or exemptions at all. It simply applies a portion of the growth in tax revenue to income tax reduction and over the long haul, has the potential to buy income taxes rates down to zero. There are folks who didn't like that plan at all last year. Several of those folks now seem to think maybe that it is not so bad after all.

OTHER ISSUES

Finally, we know this report was heavy on tax talk. There are other issues brewing and as they develop we will report them to you. There will be additional tweaks made to Unemployment Insurance. How the budget and programs vital to Chamber members are fairing will certainly be covered. Things not yet on the radar are sure to pop up as well and we will inform you about those too. In the mean time, if you have a question or legislative concern that you want information or even help with, give us a call. Your Government Relations Team is here to advocate for the chamber legislative agenda, to provide information and assistance to legislators and to assist chamber members. We really hope that you will take advantage of this service as one of the benefits of being a Chamber member.