# REPORT OF THE GOVERNOR'S TAX REVIEW COMMITTEE
# (December 1998)

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## KANSAS TAX POLICY
## should be

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| *GROWTH ENHANCING* | Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans. |
| *EFFICIENT* | Tax structures should minimize distortions of household economic decisions and of capital and labor allocations by business. |
| *ECONOMICAL* | Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time. |
| *CLEAR* | Tax structures should be simple, understandable and predictable. |
| *FAIR* | The tax burden should be equitable in impact on all Kansans. |

## GUIDING PRINCIPLES AND CRITERIA
## OF KANSAS TAX POLICY

Taxes are necessary to help fund economical governmental services, but tax policy must be fair and clear to all taxpayers and respect private economic decisions in order for everyone to benefit from economic growth. State and local tax policy requires tradeoffs since there is no perfect tax or perfect tax system. Therefore, all tax legislation has to balance competing principles and criteria.

Tax policy requires continuous review based upon:

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| GUIDING PRINCIPLES | foundations for policy |
| CRITERIA | implementation guides |
| BENCHMARKING | measurement scales and indicators |
| BENCHMARK GOALS | desired ranks or results by a specified year |

## GUIDING PRINCIPLES, CRITERIA AND SAMPLE BENCHMARK INDICATORS

**I. GROWTH ENHANCING: Tax policy should foster strong economic growth, job creation, and a rising standard of living for all Kansans. For this to occur:**

A. Tax policy should foster an economic development strategy benefitting households and businesses.
*Sample benchmarks include:*
   1. *Gross state product growth rate, by state*
   2. *State personal income growth rate, by state*
   3. *Annual earnings per job, by state*
   4. *Business formations, by state*
   5. *Unemployment rate, by state*

B. The tax base should be broad with a clearly articulated rationale for any tax preference or imposition on any particular group or sector of the economy.
   1. *Relationship of tangible goods subject to the sales tax in comparison to services.*
   2. *Amounts and types of sales tax deviations from uniform base*
   3. *Amounts and types of property tax deviations from uniform base*
   4. *Amounts and types of income tax deviations from uniform base*

C. Tax policy should focus on the long run and not overreact to short-run immediate concerns for any particular firm or market condition.
   1. *Cost of tax incentives compared to induced direct business activity*

D. Government services, as well as taxes, should be competitive with other states.
   1. *Education attainment, by state*
   2. *Infrastructure condition, by state*
   3. *Measures of public goods providing quality of life (e.g., parks & recreation), by state*
   4. *State and local expenditure growth rate, by state*
   5. *State and local taxes per capita and per $1,000 of state personal income, by state*

**II. EFFICIENT: Tax structures should minimize distortions of both household economic choices and of capital and labor allocations by business. For this to occur:**

A. Tax structures and levels should minimize interference with private economic decisions.
   *Sample benchmarks include:*
   1. *Effective tax rates on capital-intensive business, by state*
   2. *Effective tax rates on representative households and business segments, by state*

B. The state and local tax structure should have a diversification of revenue sources over broad bases instead of high tax rates on limited tax bases.
   1. *Percentage of reliance on major tax sources by type of Kansas government, in comparison to other states*

C. The marginal rate should be as low as possible.
   1. *Comparison of marginal tax rates by source, by state*

**III. ECONOMICAL: Each taxing jurisdiction should set tax collections as low as possible to finance justified levels of public expenditures over time. For this to occur:**

A. Revenues generated should be lower than, and not exceed, long run changes in Kansas personal income.
   *Sample benchmarks include:*
   1. *Comparative state and local revenue growth rates*
   2. *Combined income elasticities of state and local tax sources that approximately equal 1.0 over the long run*

B. Over the business cycle, there should be stability of (inflation adjusted) real revenue without rate changes.
   1. *Inflation adjusted revenues compared to actual collections*
   2. *Inflation adjusted expenditures compared to actual expenditures*

C. Adequate budget balances should be used to ensure balanced budgets over time thereby avoiding frequent or short-term tax and spending changes.
   1. *Size of fund balance relative to general fund revenues and expenditures*
   2. *Comparison to policies in other states*

D. State tax policies should not unduly restrain local initiatives in meeting local obligations.
   1. *Percentage of state taxes to total state and local taxes*
   2. *Percentage of locally raised revenues to total local revenues*

E. The costs and effectiveness of government services should be justified periodically.
   1. *Estimates of the costs and effectiveness of governmental services*
   2. *Per capita revenues by source, and per capita expenditures by function*

**IV. CLEAR: Tax structures should be simple, understandable, predictable, and efficient. For this to occur:**

A. Each tax or revenue structure should be as simple as possible to increase voluntary compliance while lowering compliance and administrative costs.
   *Sample benchmarks include:*
   1. *Costs for taxpayers to comply with particular taxes*
   2. *Costs to administer particular taxes, including delinquencies and appeals*
   3. *Utilization rates of tax preferences*

B. Taxpayers should understand how their tax is determined.

*1. Readability of tax materials*
*2. Accessibility of tax information*
*3. Complaints on handling and resolution procedures*
4. *Taxpayers' views*

C. The tax structure should be relatively stable and predictable to avoid disrupting business and individual tax planning and to reflect the full economic and competitive effects of past actions.

*1. Minimized frequency of tax rate changes*
*2. Estimated versus actual economic effects of past tax changes*

D. Taxpayers should know which government is responsible for each tax and spending component, and the services funded by the tax.

1. *Taxpayers' views*
*2. Adherence to publication and disclosure standards*

E. To foster informed public debate, taxpayers should have access to non-confidential tax data for modeling taxpaying behavior under alternative tax policies.

*1. Frequency and ease of access*

**V. FAIR: The tax burden should be equitable in impact on all Kansans. For this to occur:**

A. Tax burdens should recognize the ability to pay.
B. A comprehensive measure of ability to pay should include income, consumption, and wealth.
C. General business taxation should be structured to recover the costs of governmental services rendered to the business community.
D. Taxpayers with similar levels of income, consumption, or wealth, in a particular taxing jurisdiction, should pay approximately the same amount of tax.
E. Competing businesses should be handled similarly for tax purposes.
F. Tax equity should be measured not only by effective tax rates but also by the distribution of family income by income group.
G. The State should estimate the economic burden of who pays Kansas taxes and promote the public's use of the tax burden distributions in assessing tax legislation.

*Sample benchmarks include:*

*1. Effective tax rates for taxpayers at different income levels and characteristics*
*2. Net spendable income and implicit tax rates on low income Kansans*
*3. Economic incidence of tax burdens on households in Kansas and comparison states*
*4. Economic incidence of tax burdens on business sectors in Kansas and comparison states*
*5. Ratio of state and local business taxes to related public expenditures*
*6. Comparison of the shares of total income earned by families ranked from the poorest one-fifth to the highest one-fifth.*
*7. Frequency of use by the public of the tax burden distribution models for "what if" analysis.*

**BENCHMARK GOALS**
**To be Achieved by Fiscal Year 2002**

Kansans expect a fair, efficient and understandable tax system that is capable of generating sufficient revenues to support economical governmental services in a growing economy. Accordingly, the Tax Review Committee finds that by no later than Fiscal Year 2002, as revenues permit, the State of Kansas should have permanently established frequent analyses of its tax system, but more importantly, achieved specific tax results.

*SPECIFIC NON-PRIORITIZED TAX RESULTS TO BE ACHIEVED BY FISCAL YEAR 2002:*

- The overall tax burden on Kansans is about average for the region.
- The tax burden on households is about average for the region.
- The business tax burden is about average for the region and for similar industries.
- Kansans at or below the poverty level bear a tax burden as low as possible.
- The top marginal tax rate for the personal income tax is removed and the progressive rate structure is narrowed.
- The tax on business machinery and equipment is at or below the regional average.
- The sales tax base includes a broader definition of consumption.
- In years of a prosperous state economy, tax receipts are managed to create a fund balance for years of weak economies.
- The combined state and local tax structure is balanced in reliance on income, sales and property taxes.
- The tax burden on the oil and gas industry is reduced* consistent with the characteristics of the Kansas industry (*which may mean repeal, according to some committee members)

*TAX INFORMATION TO BE ACHIEVED BY FISCAL YEAR 2002:*

- The State reports biennially on who pays Kansas taxes based on tax burden analyses of households and business. The report presents information on (1) the overall tax incidence and (2) the distribution by income classes (at least by quintiles) and other taxpayer characteristics.

- The State reports annually on the progress in meeting the Guiding Principles. The report is available to the public before the start of the regular legislative session, and includes the following information:
    1. Summary of economic and fiscal trends related to tax policy;
    2. Data for each relevant benchmark indicator;
    3. Details on who pays Kansas taxes based on the household and business tax burden models, with information on the overall tax incidence and the distribution by income classes (at least by quintiles) and other taxpayer characteristics.;
    4. Summary of "tax expenditures" for each major tax structure;
    5. Comparison of existing tax policy to the state's economic development strategy;
    6. Strengths and weaknesses of existing tax structures,
        a. Identify any tax sources that are out of step with modern realities of the economy and with generally accepted taxing practices;
        b. Review the economic and competitive effects of past tax changes;
    7. Policy questions relevant for priority attention by the governor and the legislature.

- Household and business tax burden models are available to permit the public to construct alternative tax structures and to make "what if" changes to the existing structure.