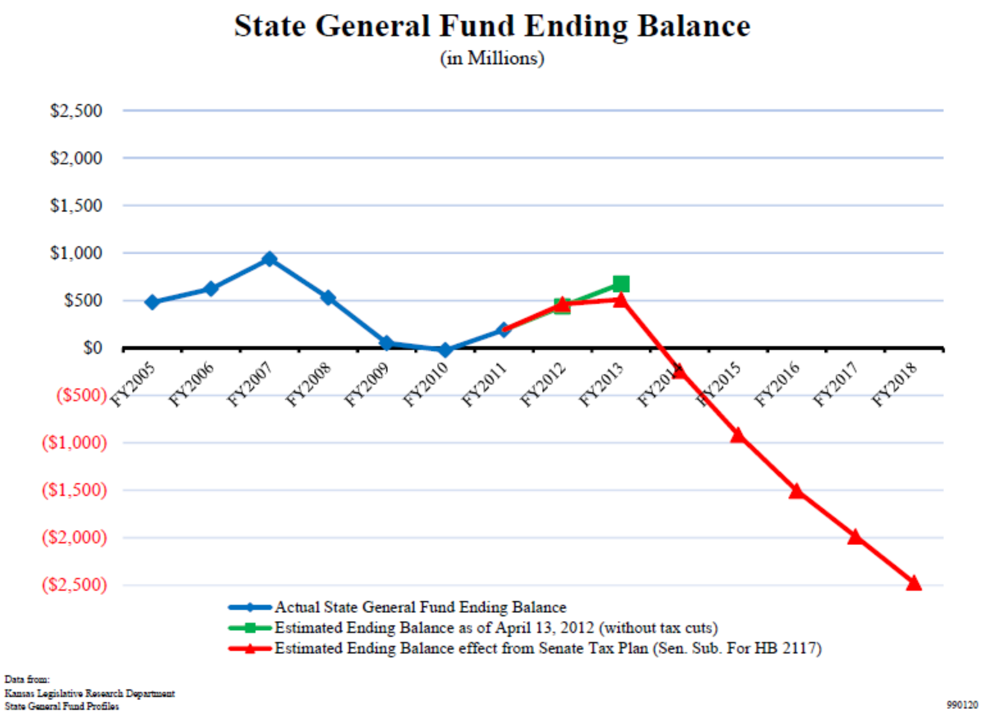
Overview:

2012 Kansas Income Tax Legislation



Kansas Economic Progress Council

October, 2012

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The income tax reductions passed by the Kansas Legislature and signed into law by Governor Sam Brownback are contained in Senate Substitute for House Bill 2117. The cuts go into effect with Tax Year 2013.

This is a summary of the legislation, including analysis of its impact and some of the problems it creates as the result of the parliamentary maneuvering and haste with which it passed.

Known by many as the "nuclear option" income tax cut, the bill forces significant budget cuts in future years. The Governor has already directed state agencies to prepare budgets for next year that reflect a ten percent decrease in spending. He will almost certainly propose changes to the 2013 Legislature, including revenue increases to help offset the tax cuts.

The Kansas Economic Progress Council opposed the legislation.

We have received many requests for information on the impact of the changes. In response, we have prepared this report, which includes much of the information we provided in testimony to legislative committees during the 2011 and 2012 legislative sessions.

What's new is some of the reaction to the bill and a portion of a report by the Tax Foundation, which argues that property taxes, not income taxes, have a more negative effect on start-up decisions by small businesses.

It's contained in the section: Why property tax is a bigger Kansas problem.

We hope you find this report informative and useful.

Bernie Koch
Executive Director
Kansas Economic Progress Council

The Bill

Here's what Senate Substitute for House Bill 2117 does.

Our description comes from the Supplemental Note prepared by Kansas Legislative Research Department, and from the bill itself.

Rate Reduction and Restructuring

Married, filing jointly
The current three bracket structure for married individual income taxes is:

- For taxable income under $30,000, 3.5%
- For those making over $30,000 but under $60,000, $1,050 plus 6.25% of the excess over $30,000
- For those making over $60,000, $2,925, plus 6.45% of the excess over $60,000

Here's the new two bracket structure for married, filing jointly, beginning with tax year 2013:

- For taxable income under $20,000, 3.0%
- For those making over $30,000, $900 plus 4.9% of the excess over $30,000

Single taxpayers
The current three bracket structure for single individual income taxes is:

- For taxable income under $15,000, 3.5%
- For those making over $15,000, but under $30,000, $525 plus 6.25% of excess over $15,000
- For those making over $30,000, $1,462.50 plus 6.45% of the excess over $30,000

Here's the new two bracket structure for single, beginning with tax year 2013:

- For taxable income under $15,000, 3.0%
- For those making over $15,000, $450 plus 4.9% of the excess over $15,000

Business Income Exemption

The bill would totally exempt certain non-wage business income that under current law is subject to individual income tax: income reported by LLC's, Subchapter-S Corporations, and sole proprietorships on lines 12, 17, and 18 of federal form 1040. This is basically non-wage income.

Tax Credits Repealed
Additional sections would repeal tax credits currently allowed to individuals (but not to corporations) for the following:

- food sales tax rebates
- abandoned well plugging
- adoption expenses
- agritourism
- alternative fuel equipment expenditures
- assistive technology
- child and dependent care expenses
- child day care expenses
- disabled access expenditures
- environmental compliance expenditures

- individual development account contributions
- law enforcement training center contributions
- small employer health benefit plan contributions
- swine facility improvement expenditures
- port authority contributions
- small employer health benefit plan contributions
- telecommunications property tax payments
- venture capital contributions
- certain temporary assistance to family contributors

Standard Deduction
Other language would increase the standard deduction amount for single head-of-household filers from $4,500 to $9,000; and for married taxpayers filing jointly from $6,000 to $9,000.

Other Income Tax Provisions
Additional provisions of the bill would eliminate a subtraction modification for certain long-term care insurance expenditures; and eliminate the ability of individuals to utilize the income tax deduction for expensing enacted in 2011.

Severance Tax Provisions
The two-year new pool severance tax exemption would be repealed relative to all oil production from any pool producing in excess of 50 barrels per day, provided the initial production occurs on and after July 1, 2012.

Homestead Program
Beginning in tax year 2013, renters would no longer be eligible to participate in the Homestead Property Tax Refund program.

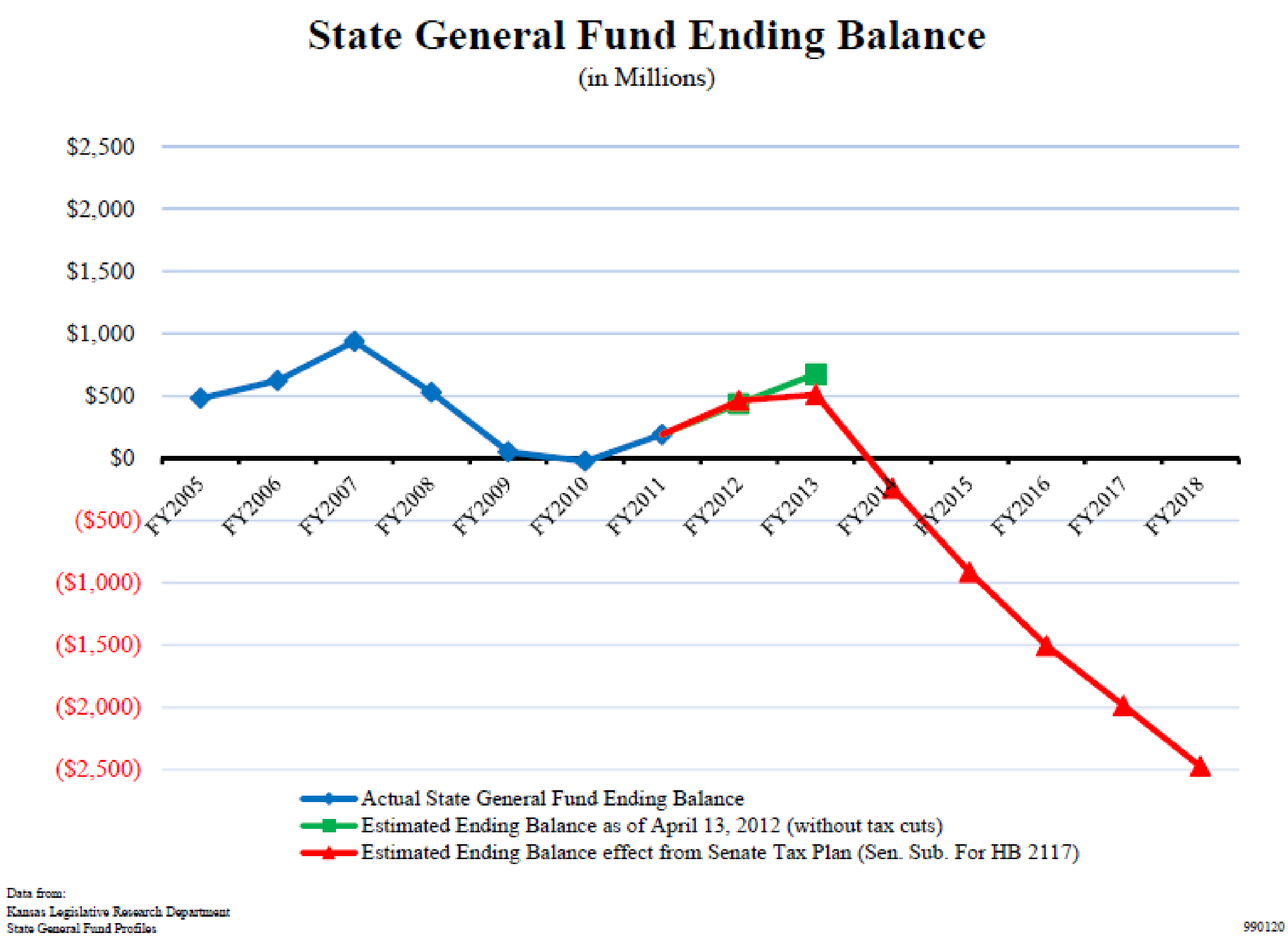
Cost of the income tax cut

The Legislative Research Department estimates the following ending balances for the Kansas General Fund in future years as the result of the income tax cut. This is the money left in the state treasury at the end of the year. The estimate includes human services caseload adjustments and a 4% revenue increase each year.

FY 2013	$509.7 million (8.3% ending balance)
FY 2014	-$242.2 million (-3.9%)
FY 2015	-$914.6 million (-14.5%)
FY 2016	-$1.5053 billion (-23.3%
FY 2017	-$1.9869 billion (-30.2%)
FY 2018	-$2.4751 billion (-36.3%)

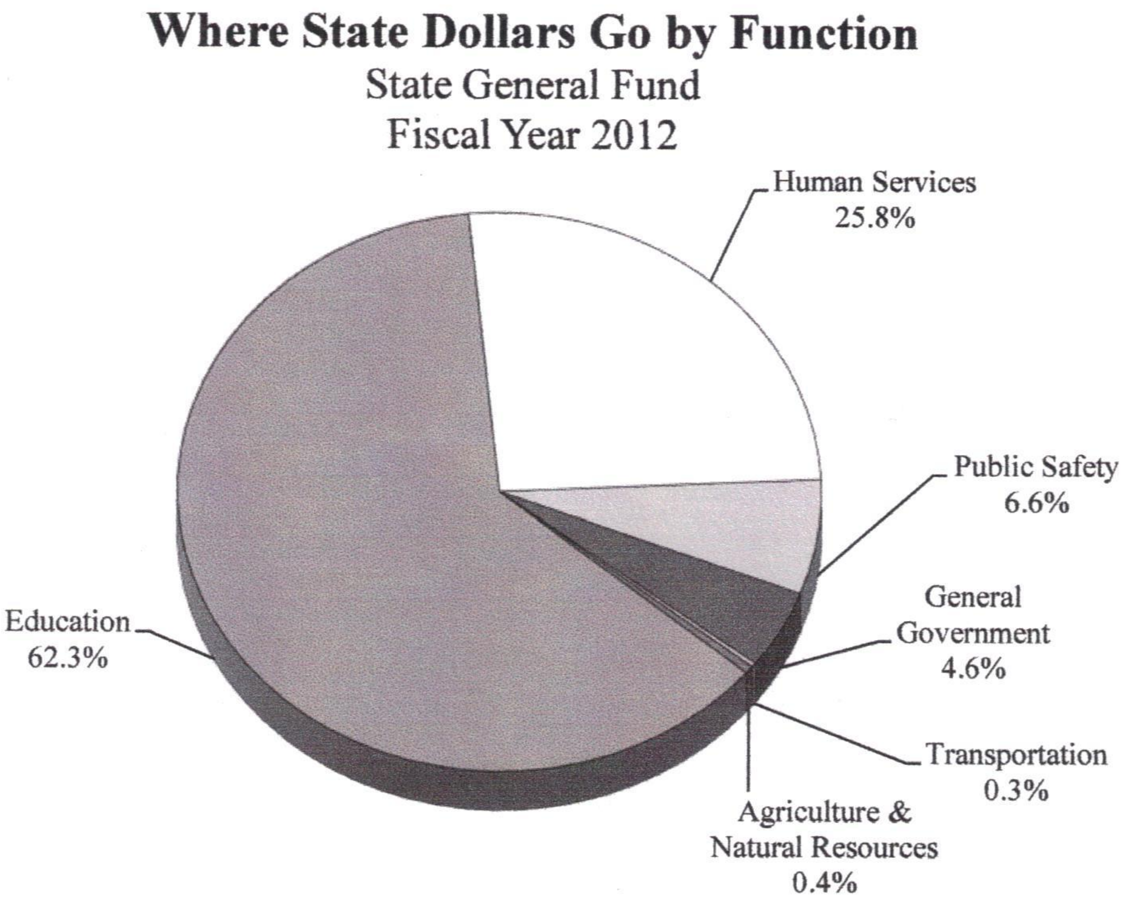
Kansas cannot deficit spend, like the federal government. When a negative ending balance budget is anticipated (as above), the Legislature must cut the budget or find additional revenue.

Here is a chart that illustrates the State General Fund scenario, using the above estimates.



If there are no revenue increases and the budget must be cut to match the income tax reduction, it will have to come out of the State General Fund. Below is a pie chart showing how SGF revenue is spent. It comes from the Governor's 2012 Budget Message to the Kansas Legislature.

Where would you cut 36.3 percent?



Reactions

Although the Administration continues to try to put a positive face on the legislation, even some conservative national organizations have expressed strong concern.

<u>The Tax Foundation</u>, which has often been quoted by the Administration and legislators in trying to justify an income tax cut, had this to say May 29 about the exemption of businesses in the bill.

"First, the exemption creates an incentive for businesses to structure as pass-throughs for tax reasons, even if it might be unwise to do so for non-tax reasons. Instead of the Kansas tax system treating similar activity similarly, the system will encourage economically inefficient, though tax-reducing activities.

"While this can be difficult and complicated, especially in business taxation, Kansas's decision to exempt one type of business structure completely from taxation (pass-throughs) while continuing to tax others (C corporations) is problematic. It rewards certain business structures while punishing others. There is no sound economic justification for treating these two types of business activity so dramatically differently."

"Further, while tax reductions can have positive economic benefits, they will cost revenue and will ultimately have to be paid for either by cutting spending or increasing taxes elsewhere."

<u>Forbes</u>, the conservative business publication, had this to say on June 12.

"Kansas slashed the tax rate for the better off and exempted huge chunks of business, farm and self-employment income from its individual income tax, while increasing the burden on some of the state's poorest residents by eliminating a rebate they now get to offset the state's sales tax on food."

"When the food sales tax rebate disappears next year, Kansas will join Alabama and Mississippi as the only states that levy a tax on food and don't in some way compensate lower income residents for the strain on their budgets."

<u>Moody's warnings</u>

In two separate reports recently, Moody's, the bond credit rating organization, has expressed concerns about the Kansas income tax cut legislation and slow economic growth in the state caused by shrinking government payrolls.

In a June 13 Moody's report on the income tax reduction bill, Moody's says the cuts will have a manageable impact on the 2013 budget, but a more serious problem after that. Their forecast:

"No improvement in economic growth as a result of the tax cuts is assumed by the forecast, although improved economic growth is the legislation's policy goal."

"Unless it is able to implement corresponding spending cuts or achieve faster economic growth than currently anticipated, the state forecast shows out-year operating budget deficits and depletion of fund balances, which would cause downward credit pressure."

Here's an excerpt from a July 5 Moody's report on the overall economic health of Kansas:

"A shrinking public sector poses the biggest hurdle to a more solid recovery. Further, lackluster performance in goods production has kept the state's growth below average."

"Prospects of additional public sector retrenchment will remain the biggest threat to the recovery. Federal government payrolls were hit especially hard last year, with state and local employment declines not too far behind."

Administration's "dynamic scoring" implies low growth

At the ceremony where Governor Brownback signed the large income tax cut bill, officials circulated "dynamic scoring" documents predicting the tax cut will add 23,000 new Kansas jobs by 2020, over and above normal growth. Administration officials also indicated their analysis showed 35,000 people will move to Kansas as a result of the tax cuts by 2020.

A review of Kansas labor and census information strongly suggests such growth would be extremely low by historic standards and contradicts the administrations claims that the legislation will be "a shot of adrenaline into the heart of the Kansas economy."

Current Kansas employment in August was 1,340,600, according to the Kansas Department of Labor. An addition of 23,000 new jobs would be about 1.7%.

Putting this in perspective, a September news release by the Kansas Department of Labor stated:

"Kansas gained 17,700 nonfarm jobs since August 2011, a 1.3 percent increase. The state also grew by 16,800 private sector jobs during this time, a 1.5 percent gain"

Here's how Kansas employment grew in the five year period after the September 11th downturn and the beginning of the Great Recession in 2008. Figures come from the Kansas Department of Labor web site.

2003-2004	11,800
2004-2005	8,100
2005-2006	20,700
2006-2007	26,200
2007-2008	10,600

That's an increase of 66,800 jobs in the period, or 5% growth of employment before the recession hit. An additional 23,000 jobs over the next seven years would certainly be welcome, but it's hardly "a shot of adrenaline" compared to what Kansas has been able to do in a normal recovery.

So, what about the projection that Kansas will add 35,740 new residents?

Kansas current population, according to the U.S. Census Bureau, is 2,871,238. The addition of 35,740 new residents by 2020 would only be a 1.24% increase.

According to U.S. Census Bureau estimates, Kansas beat that percentage population growth in eight of the ten years of the decade from 2000 to 2010.

Here are the estimated Kansas population growth rates from 2000 to 2010:

2000	8.5%
2001	0.5%
2002	0.9%
2003	1.2%
2004	1.6%
2005	2.0%
2006	2.5%
2007	3.2%
2008	4.0%
2009	4.8%
2010	6.1%

Kansas population grew by 164,294 during the decade beginning in 2000.

That's 6.1 percent. An additional 1.24% increase in population would be welcome, but it's hardly "a shot of adrenaline into the heart." Maybe more like a cup of regular coffee.

<u>Hutchinson News analysis</u>

A September 27th analysis by Hutchinson News Editorial Board reached a similar conclusion. Based on charts presented by the Governor at the Kansas State Fair, the editorial said:

"Despite the administration's claims that tax reform will light a fire under the economy, the Department of Revenue's own projections show less than amazing results – 20,000 additional jobs and 40,000 additional residents more than the state would've seen without any tax-code tinkering whatsoever."

"Assuming that the Department of Revenue's projections are valid, the state would've grown beyond our wildest imagination just by letting time pass. Each of those 20,000 additional jobs projected under the governor's tax plan, however, will cost over $200,000 in state revenue that together are expected to create a $2.5 billion budget deficit in just five years.

Yet the true cost of the governor's tax plan won't be known for years, as the taxation burden will shift to local governments that simultaneously will be forced to increase property and/or sales taxes – which generally are steeper and more severely felt by taxpayers – to fill the gaps left by state government.

The governor might claim that his tax plan will lead to accelerated growth and massive economic activity, but his own data shows that such claims are overblown and ignore the truth that grossly altering the tax code provides, at best, marginal increases in employment and population."

<u>How many jobs will it take to fill the budget hole?</u>

A simple calculation by KEPC shows that 23,000 jobs (the number estimated by the Administration's dynamic scoring) will have to generate over $108,000 in sales and income taxes per job in a single year to bring the projected $2.5 billion deficit to a zero ending balance in FY 2018.

Here's another way to look at how many jobs it will take to make up for the projected budget shortfall:

- Assuming each new job will pay $50,000 a year (very generous assumption)
- Assuming each new job produces 9% in income and sales tax to state government (also very generous)
- That means $4,500 a year will go to state government for each new job.

53,222 new jobs will have to be created in the next two years or so to fill the $242.2 million shortfall to the state budget caused by the legislation (just to bring the ending balance to zero).

In August, 2012, the private sector employment in Kansas was 1,103,400. That means employment growth would have to be 4.82% in the next two years. That's aggressive, but not impossible.

To fill the Fiscal Year 2018 budget gap of $2,475,100,000 predicted by the latest Legislative Research fiscal note, it would take 550,022 new jobs.

That means Kansas jobs would have to grow 49.7% over the next six years (an average of 8.3% a year).

How does that compare to Texas job growth over the past 10 years? According to the U.S. Department of Labor, Texas private sector job growth over the past 10 years was 14.79%, or an average of 1.479% per year.

Kansas would have to grow over 5 and a half times as fast as Texas has been growing to get to a zero ending balance.

It is obvious to KEPC and many others, including respected conservative legislators who favored some kind of income tax cut, that there are serious consequences to this legislation. They include likely significant cuts to education and other state services.

Based on the experience of the past 23 years, the temptation to rob the state highway fund will be irresistible.

Technical problems

Certified Public Accountants and tax attorneys combing through the Kansas income tax cut legislation have discovered several problems with the hastily assembled legislation. Most appear to be minor and can be handled through administrative rules and regulations written by the Kansas Department of Revenue.

However, one glitch must be addressed through legislation. The bill has a major problem involving how "tax basis" is determined.

Tax basis is a term that refers to the amount of investment a taxpayer has in business assets. The basis one has in capital assets affects how much tax he or she will owe.

Section 37(a) of House Bill 2117 says essentially that the tax basis of a company is determined by its original formation structure, or its structure as of January 1, 2013. Accountants say the law is silent or "unfinished" about what happens if there are structural changes in ownership after that date.

- What happens if an owner disposes of his or her interest?
- What if a partial owner wants to buy more into the partnership, or sell out?
- What happens to an out of state firm entering Kansas? How is their tax basis calculated?

The law does not provide the ability to adjust the basis after January 1, 2013 and that is a difficult obstacle to overcome that cannot be dealt with by rule or regulation.

What's more, tax experts say this is particularly difficult for companies moving to Kansas from other states, a condition that may actually prevent companies from coming here (the opposite of one of the stated intents of the legislation) because it could mean a tax increase if they move to Kansas.

Other technical problems with the bill:

- LLCs (Limited Liability Companies) are not mentioned anywhere in the bill. It was the intent to include them in the exemption for non-wage income. The Revenue Department is said to be writing LLCs in through rules and regulations.
- Section 38 (c) of the bill refers to Paragraph (xxi) of the bill. There is no Paragraph (xxi).
- The bill appears to eliminate deductions for mortgage interest and charitable contributions in one section, but retains them in another. Revenue regulations will go with legislative intent and indicate the deductions are still available.

Will it work?

The short answer is maybe it will help grow the economy, but there's no clear proof.

Proponents of the income tax cut have cited studies indicating low and no income tax states grow jobs and population faster. These studies do not look closely at the economies or economic development efforts of these states to answer the question of why they grow jobs.

States without an income tax usually have abundant natural resources or heavy tourism that results in significant state revenue. States without an income tax depend more on sales and property taxes to fund government services. And states without an income tax often have many kinds of other taxes and fees that we don't have in Kansas.

Alaska - Alaska does not have an individual income tax, but it does have a 9.4% corporate income tax. According to the Tax Foundation, Alaska draws a nation-high 52.6 percent of its state and local revenue from a group of taxes that includes severance taxes on natural resources, stock transfer taxes, estate taxes, and fees for hunting, fishing, and driver's licenses. Alaska is the second-highest oil producing state and collected $7 billion from its severance tax in 2011. Over 25 percent of the workforce works for government.

Wyoming - Wyoming does not have individual or corporate income taxes, but like Alaska, Wyoming has rich natural resources. It's now the largest coal mining state, producing 40 percent of our nation's coal each year. 25 percent of the workforce is employed by government.

Florida - Florida has no individual income tax, but has a corporate income tax of 5 percent. Florida's economy is based on tourism and international trade. Florida is the top travel destination in the world.

Over 60 percent of Florida's budget is based on their 6 percent state sales tax. Property taxes rates in Florida are among the highest in the nation.

Nevada - Nevada has no individual or corporate income tax and it is in the most trouble of any state right now. It has the highest unemployment rate in the country and the highest foreclosure rate on homes. Its budget relies heavily on sales tax paid by tourists and the tourists have been slow to come back to the casinos after the Recession. The Las Vegas unemployment rate is 13.4 percent.

New Hampshire – New Hampshire has no sales or income tax. It is estimated that 61% of all state and local tax revenue comes from the property tax, making it one of the highest property tax states in the country.

South Dakota - South Dakota has no individual income tax, but it does have a state corporate tax on financial institutions

Over 56 percent of South Dakota revenue comes from sales tax. The most valuable industry sector is finance, insurance, and real estate. Several large financial companies have operations located in the state, especially in Sioux Falls.

The financial service industry began to grow after South Dakota became the first state to eliminate caps on interest rates. That attracted Citibank in 1981, which moved its credit card operations from New York. That was the spark that helped South Dakota, along with a good work force and low real estate prices.

Washington - The State of Washington does not have an individual income tax or a corporate income tax. The largest sector of the economy is aircraft manufacturing, primarily Boeing, which moved its headquarters to Chicago in 2001.

Information technology, including Microsoft, is also a major employer. Both Boeing and Microsoft are located in Washington because that's where their founders lived.

Washington relies on sales tax more than any other state. It's over 60 percent of their revenue.

It also makes up for a lack of income tax by several taxes and fees, including:

- A cigarette tax of $30.25 per carton
- A tax on 8,000 identified hazardous substances (petroleum products, pesticides, etc.)
- A litter tax on manufacturers, wholesalers and retailers of products which contribute to litter (such as groceries)
- A tax on any device that burns solid fuel (like a wood stove)
- Tire fee ($1 per tire)
- An annual tax on private aircraft

Tennessee – Tennessee levies an income tax on stocks and bonds, but not on wage and other income.

The state has seen tremendous growth in the auto industry due to hundreds of millions of dollars of local and state incentives. Nissan North American headquarters and manufacturing was attracted to the Nashville area and a Volkswagen manufacturing plant was lured to Chattanooga. Incentives to Nissan were a reported $200 million. The Chattanooga Volkswagen project involved the largest state incentives in the history of the automobile industry, about $500 million.

Texas - Texas has no individual income tax or corporate income tax.

Texas is home to at least one-third of the jobs created nationwide since the recession ended in 2009 The state's economy is growing about twice as fast as the national rate. About 40 percent of the job growth came in three areas: natural resource production; education and health services; and government.

The oil and gas industry now delivers roughly $325 billion a year to the state, directly and indirectly. It brings in $13 billion in state tax receipts, or roughly 40 percent of the total, financing up to 20 percent of the state budget. Nearly 30 percent of all U.S. oil and gas workers live in Texas. The economic boom in Texas is largely attributed to its oil and the hydraulic fracturing (fracking) used to get it.

Other factors that influence the Texas economy include trade with Mexico, a large amount of federal spending on military, and the ports on the Gulf of Mexico. There are 14 of them, including Houston, the 2nd largest port in the U.S.

Over 20 percent of Texas revenues come from other taxes, such as:

- A fee on oysters taken from Texas waters
- A petroleum products delivery fee
- An automotive oil sales fee
- A fireworks tax
- A vehicle battery sales fee that's two to three dollars per battery
- A 14 percent mixed beverage tax
- For every customer who enters a sexually oriented business, there's fee of $5

Texas also has the largest economic development "closing fund" of any state ($125 million) and a massive Emerging Technology Fund of half a billion dollars that can be invested to attract and grow high technology businesses.

Saying that having no state income tax is the reason these states grow jobs is like saying, "My neighbor is wearing a red bow tie and is rich. Therefore, if I wear a red bow tie, I will be rich." At the same time, you ignore the fact that your neighbor has a gold mine on their land.

What grows jobs?

Low taxes can be a factor in attracting and growing some businesses.

However, other factors have been shown by respected empirical studies to be as important, if not more important, including investment in infrastructure and equipment; labor efficiency; education, and innovation.

The **investment rate** in plant and equipment, including efficient physical and communications infrastructure, has a strong positive impact on growth. The higher an economy's capital intensity (machines, buildings, roads, bridges, etc.), the more prosperous the economy.

Human capital and the efficiency of labor have also been shown to be significant to growth. Measures of human capital include the literacy rate, school enrollment ratios, and labor demographics. Higher education levels contribute to higher wages and higher productivity. Higher productivity increases GDP, the major economic measure of wealth.

Linked to investment and human capital, there is substantial support for the contribution of **continuing technological innovation and improvement** in sustaining economic growth. This suggests that support for research and development and education is important.

Public policy which supports **economic freedom** through open economies supports higher growth rates. We would include tax structure and business regulation in this category.

Reliable legal systems are a significant basis for economic growth. These systems provide dependable enforcement of private contracts, protection of private property rights, effective law enforcement, and an absence of corruption.

Why property tax is a bigger Kansas problem

A recent paper by the often misquoted Tax Foundation indicates property tax rates are more important than income tax rates to growing business and the economy.

"Tax Foundation Background Paper No. 62 by Mark Robyn says*, "Coupled with the academic findings that property taxes are the most influential tax in terms of impacting location decisions by businesses, the evidence supports the conclusion that property taxes are a significant factor in a state's business tax climate. Since property taxes can be a large burden to business, they can have a significant effect on location decisions."*

The strongest statement in the report comes from the work of economist Timothy J. Bartik, who specializes in local and state economic development policies. Bartik concludes that, *"higher property taxes negatively affect small business starts."*

"He elaborates that the particularly strong negative effect of property taxes occurs because they are paid regardless of profits, and many small businesses are not profitable in their first few years, so high property taxes would be more influential than profit-based taxes on the start-up decision.

"States competing for business would be well served to keep statewide property taxes low so as to be more attractive to business investment."

How does Kansas stack up?

Property tax rates vary greatly by location in Kansas because the value of property varies.

Kansas' overall property tax is tied with Indiana for sixth-highest in the country.

The Council on State Taxation said in a report in July 2011 that property taxes were the highest taxes paid by businesses in Kansas in 2010. The report estimated that, of total taxes paid by Kansas businesses, 45.9 percent came from property tax, 23.7 percent from sales tax, 6.1 percent from corporate income tax, and 6.8 percent from individual income tax on pass through income.

The Lincoln Land Institute has done research indicating commercial property tax rates in rural areas of Kansas are probably the highest of any rural areas in the United States.

Tax Foundation rankings for Kansas

The Tax Foundation is often quoted by supporters of the income tax cuts because Kansas ranks 47th overall for mature business operations and 48th overall for newly established operations in tax competitiveness.

These poor overall rankings are contained in the organization's annual report, *Location Matters: A Comparative Analysis of State Tax Costs on Business*. However, the Kansas specific comments of the report blame high property and sales tax rates.

A mature Kansas corporate office *"has a fairly low income tax burden due to the state's apportionment formula; however, it faces an above-average sales tax burden and one of the highest property tax burdens in the nation."*

On a new distribution center:

"While this operation has one of the lowest income tax burdens of its type nationally, it faces the highest property tax burden and fourth-highest sales tax burden."

For a mature research and development center:

"Once again, these operations have one of the highest property tax burdens in the nation along with a top-10 sales tax burden."

Arkansas Chamber of Commerce Tax Study

A December, 2011 study by Ernst & Young for the Arkansas Chamber of Commerce looked at the effective tax rate on different kinds of businesses in eight states in the region, including Kansas.

Some of the conclusions:

- Kansas ranks highest in the region for state and local taxes on business support services.
- Kansas ranks second highest in the region for state and local taxes on research and development operations
- Effective tax rates vary widely in Kansas by business. For example, Kansas business support services have an effective tax rate of 19.7 % while durable goods manufacturing has an effective tax rate of 8.1%. Kansas is highest in the region for services, but among the lowest for manufacturing.

The study showed Kansas high property tax rates were a significant factor.

Looking ahead to 2013

Here are some of the issues we can expect to emerge in 2013 as the result of this year's tax cut bill:

Changes to PEAK (Providing Employment Across Kansas)

The valuable economic development PEAK program will have immediate and dramatic problems when the income tax cut becomes official. PEAK allows qualifying companies to retain 95% of state payroll withholding for each eligible job for up to ten years. When the tax cuts go into effect in January, withholding drops and the cash flow expected by businesses in the program will drop dramatically.

There are dozens of Kansas businesses in the PEAK program that will be affected and have built the incentive into their long-range plans. Most are in Johnson and Wyandotte Counties, but there are PEAK incentives also going to companies in Sedgwick, Cherokee, and Harper Counties.

The largest beneficiary is the General Motors expansion in Wyandotte County with $107 million in payroll and 1,479 new PEAK jobs.

Credit ratings

Kansas credit ratings will be impacted.

In addition to the Moody's reports cited in the Reactions section above, the Wall Street subscription publication Debtwire Municipals has done three stories on the implications of the tax cut legislation and its impact on bond ratings. The first was on the income tax cut, the second was on its impact on the Kansas transportation program, while the third was on the school finance lawsuit and the impact on the state if the court rules the legislature has underfunded K-12 education.

The Budget

We will begin to see the impact of the income tax cuts in January of 2013, as the first lower withholding comes out of paychecks. Estimated tax payments by businesses will also change with the enactment of the business income exemption. There are reports that many "C" Corporations are exploring a change in status to take advantage of the exemption.

Many lawmakers who opposed the income tax cut believe the cost of the business income exemption is much greater than projected by the Department of Revenue. If true, lawmakers may have to adjust the already-passed FY 2013 budget downward.

Expect to see proposals for "revenue adjustments" designed to offset some of the income tax cut. Possibilities include elimination of tax credits, income and sales tax exemptions, deductions, and a repeat of efforts to make the temporary one-cent sales tax increase enacted in 2010 permanent.

However, these will not be enough. As previously stated, we fully expect another attempt to take transportation funds to mitigate the damage to education, social services, and other important state operations.

And, of course, there will also be proposals to cut the budget.

The Kansas Economic Progress Council is a not for profit designed to draw together organizations and businesses interested in advancing sound public policy in Kansas to enhance our state's quality of life.

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