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Report: Inequitable Tax Code Costs Kansas Up to $1.28 Billion

Taxing Top Incomes at the Same Rate as the Middle Class Could Fund Critical States Priorities, Filling the Budget Hole, Restoring Cuts to Education, and Paying Down Pension Debt

As the Kansas legislature grapples with difficult budget choices thanks to Gov. Brownback’s misguided tax cuts, a new report out today shows that the state could generate up to $1.28 billion in revenue by fixing inequities in state tax code.

Kansas’ highest-income one percent pay a much lower percentage of their income in state and local taxes than those in the middle of the income distribution – 3.6 to 9.5 percent, respectively. The report, Tax Fairness: An Answer to Kansas’ Budget Problems, released by the Keystone Research Center, finds that if Kansas taxed the top one percent of taxpayers at the same rate as the middle 20 percent, state could raise $724 million per year. If the top 20 percent of income earners paid a fair tax, Kansas could generate $1.28 billion per year.

“Revenue lost because of the one-two punch of rising income inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said Stephen Herzenberg, KRC economist and executive director. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In the 1970s, the top one percent of taxpayers received less than 10 percent of total income in Kansas. By 2012, their share of Kansas’s total income had nearly doubled, to almost 20 percent. This shift equals means that, every year, more than $15.5 billion in income now goes to just one percent of Kansans.

For context: $15.5 billion is two-and-a-half times the Kansas state budget and 45 times the annual cost of paying down the state’s pension debt.

This concentration of income at the top drained has drained the state budget. The $724 million generated from applying a fair tax structure to just the one percent would reverse the cuts and transfers (estimated at $292 million) used to fill Kansas’s current budget hole, restore $358 million in education funding cuts made since 2009, and leave $74 million for other purposes. The $1.28 from tax fairness on the top 20 percent could, in addition, pay off annual pension debt ($342 million), with another $200 million left over for other purposes.

The loss of revenue because the top one percent pay low tax rates is not unique to Kansas. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Nationwide, applying tax fairness to the one percent would generate $68 billion, or $128 billion if applied to the top 20 percent.

“Restoring public goods that benefit all employers and all working families is critical to reversing the corrosive rise of inequality,” said Greg LeRoy, executive director of Good Jobs First, which partnered with KRC on the
national companion report to the Pennsylvania brief. “The middle class won’t recover—and states won’t get their finances in order—until they fix their tax codes.”

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