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## 2012 Session Begins

The 2012 Kansas legislative session began on Monday, January 9. There are many substantial issues awaiting the legislature's attention. Redistricting will be the one issue that the legislature must tackle the session and will influence all the rest of the major issues the legislature will be discussing.

The governor gave his State of the State address on Wednesday evening and laid out his proposals for the coming session. Those proposals included a much advertised school finance plan, but tax proposal, his previously announced Medicaid reform plan and his proposed budget for the next fiscal year (FY 2013). All the proposals he outlined are ambitious to accomplish in a single legislative session.

### The Governor's Tax Proposal

The governor laid out his tax proposal during his State of the State address.

- Lower individual income tax rates and move from three brackets to two brackets:
  - 3 percent rate for income under \$15,000 (\$30,000 married filing jointly), a 14 percent rate cut.
  - 4.9 percent rate for income \$15,000 and over (\$30,000 married filing jointly), a 24 percent cut.

(Current rates are 3.5 percent, 6.25 percent, and 6.45 percent)

- Eliminate individual income tax on non-wage business income (as reported by LLCs, S-corps and sole proprietorships on lines 12, 17, and 18 of the federal form 1040 individual income tax return)
- Simplify and streamline the tax code:
  - Eliminate itemized deductions and some credits (see below)
  - Eliminate subtraction modifications for 529 education savings program and long-term care contract premiums

(No impact on deductions or credits claimed at the federal level)

- Bolster the safety net for low-income Kansans while providing greater accountability by doubling the standard deduction (from \$4,500 to \$9,000) for head of household filers and investing an additional \$60 million in state social services and healthcare programs



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- Leave the corporate income tax rate unchanged
- Hold the sales tax rate steady at 6.3 percent, with 4/10 of a cent going to the highway fund as planned in FY14, as data show that sales tax rates have the least negative impact on economic growth relative to other tax types
- Eliminate the two-year severance tax exemption on new pool oil and gas wells, except for oil wells generating fewer than 50 barrels a day

The 23 tax credits proposed for eliminations for Individual Income Tax filers are:

- Abandoned Well Plugging Credit
- Adoption Credit
- Agritourism Liability Insurance Credit
- Alternative Fuel Tax Credit
- Angel Investor Credit
- Assistive Technology Contribution Credit
- Child and Dependent Care Credit
- Child Day Care Assistance Credit
- Community Service Contribution Credit
- Disabled Access Credit
- Earned Income Credit
- Environmental Compliance Credit
- Historic Preservation Credit
- Individual Development Account Credit
- Law Enforcement Training Center Credit
- National Guard Employer Health Insurance Credit
- Research and Development Credit
- Single City Port Authority Credit
- Small Employer Health Benefit Plan Credit
- Swine Facility Improvement Credit
- Telecommunications Credit
- Temporary Assistance to Families Contribution Credit



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- Venture Capital and Local Seed Capital Credits

## The Governor's Budget Proposal

To Gov. Also unveiled his budget proposal for FY 2013. The proposed budget, for the 1<sup>st</sup> time in several years, meets the state 7 1/2% ending balance law. The budget the governor lays out is projected to end the next fiscal year with more than \$460 million in unspent revenues.

Some of the highlights of the governor's budget include no transfer of highway funds to the state general fund to help balance the state budget. He also uses the additional revenues from the casinos for paying off state debt which will lead to additional SGF savings in future years.

The governor makes additional investments in technical education programs. He proposes an additional \$8 million go to the new technical education formula for post secondary institution (technical schools and community colleges). To promote increased access to the technical education programs by high school students, he proposes an additional \$20.5 million to be administered by the Kansas Board of Regents and the state Board of Education for technical education programs.

## K-12 Education Funding

The governor also proposes, in his new school finance proposal that would take effect in FY 2014, an increase of more than \$45 million for K-12 education. The entirety of the governors education funding plan was released in December. The proposed school finance formula described below is the result of several months of discussions with hundreds of Kansans.

According to the Governor, it is a modern formula that will provide districts with the resources and flexibility they need to help Kansas students meet today's challenges, prepare for tomorrow's opportunities, and excel in education.

The proposed formula will set base aid per pupil at the statutory amount of \$4,492. It will pay out to school districts by multiplying this number times their full time enrollment. Full time enrollment would be calculated with the declining enrollment factor and treating kindergartners as full FTEs. The proposed formula will require that the 20 mills in state mandated property taxes for education be collected into a Property Tax Equalization Fund. This fund will pay out to school districts in increasingly greater amounts the lower their property tax valuations per pupil are.



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The Governor's proposed formula is designed to provide stable, equitable, and fair funding to each school district. This is achieved through:

- Providing the statutory \$4,492 base aid per pupil,
- Offsetting local property tax inequity through a fund that pays out to school districts with low property tax valuation per pupil,
- Further equalizing district budgets by providing payments to ensure that each district has a stable funding amount year after year, and
- Allowing for unlimited local control of property taxes for educational purposes.

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