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Commentary: GOP Tax Framework Looks Much Like Kansas' Failed Tax Cut Package

By Chye-Ching Huang

In 2012, Kansas adopted an array of tax cuts that were large, costly, and heavily tilted to those high on the income scale. Although proponents claimed these tax cuts would supercharge the state's economy, Kansas' job and economic growth lagged *behind* those of most neighboring states and the nation after the tax cuts took effect, and the deep revenue losses led to round after round of budget cuts in key programs. This year, state lawmakers considered the damage, and they reversed course and repealed most of the tax cuts.¹ Yet many policymakers in Washington are now proposing costly, regressive *federal* tax cuts that have a great deal in common with the tax cuts that performed so poorly in Kansas.²

Given the well-documented failure of the Kansas tax measures,³ some lawmakers in Washington are trying to distance the "Big Six" tax plan that the Trump Administration and congressional Republican leaders announced in late September from the Kansas policies, despite the clear similarities. For example, Rep. Lynn Jenkins (R-Kansas) has argued that Republicans have "learned from Kansas' missteps."⁴ Sharon Wagle, president of the Kansas State Senate, has claimed that "[c]omparing the 2012 Kansas tax plan to the ongoing tax reform discussions on the federal level is disingenuous."

¹ Nicholas Johnson, "Kansas Wise to Undo Failed Tax-Cut Experiment," Center on Budget and Policy Priorities, June 7, 2017, <https://www.cbpp.org/press/statements/nick-johnson-kansas-wise-to-undo-failed-tax-cut-experiment>.

² Center on Budget and Policy Priorities, "GOP Tax Plans Would Emulate Failed Kansas Experiment," updated October 11, 2017, <https://www.cbpp.org/research/federal-tax/gop-tax-plans-would-emulate-failed-kansas-experiment>.

³ Jim McLean, "Trump's Tax Plan Has Echoes of the Kansas Tax Cut Experiment," NPR, September 30, 2017, <http://www.npr.org/2017/09/30/554506190/trump-s-tax-plan-has-echoes-of-the-kansas-tax-cut-experiment>.

⁴ Lynn Jenkins, "Tax reform in Washington and Kansas are not the same – we learned from Kansas' mistakes and made it better," Fox News, October 12, 2017, <http://www.foxnews.com/opinion/2017/10/12/tax-reform-in-washington-and-kansas-are-not-same-learned-from-kansas-mistakes-and-made-it-better.html>.

Those who make this argument protest too much. As explained below, the GOP leaders' federal tax-cut plan closely follows Kansas' failed experiment. And many of the same salesmen who touted the Kansas plan in 2012 now are making the same type of outsized claims that the proposed federal tax cuts will ignite remarkable economic growth.

Selling the Kansas Tax Cuts in 2012 — and the GOP Tax Plan Now

In 2012, Kansas tax-cut proponents helped sell the Kansas tax cuts with supply-side claims that by cutting taxes on high-income people and businesses, Kansas would spur exceptional growth by boosting work, saving, and investment. Kansas Governor Sam Brownback promised the state tax cut would act “like a shot of adrenaline into the heart of the Kansas economy.”⁵ Tax-cut advocates Stephen Moore and Arthur Laffer, who helped design the Kansas plan, declared it would have a “near immediate” positive economic impact.

Although that's far from what actually occurred,⁶ this hasn't stopped supply-side tax-cutters in the White House and on Capitol Hill from advancing a very similar tax-cut prescription for the federal government — and insisting that it will produce the type of robust growth they so confidently promised in Kansas.

The connection between the Kansas' failed tax cuts and the GOP tax plan runs deep. Stephen Moore — who, as noted, helped design the Kansas plan — now says the GOP tax plan is “not that much different from the one that Trump campaigned on — and that economist Larry Kudlow and I helped draft.” Moore claims the GOP tax plan will produce the same type of results that he and his allies earlier insisted would occur in Kansas. Reminiscent of the claim Kansas Governor Sam Brownback made in 2012 that the Kansas tax cuts would deliver a “shot of adrenaline” to the state's economy, Moore now says the GOP tax plan will provide “a steroid injection for the U.S. economy.” He contends that with these tax cuts, “we'll see 3.5 to 4 percent growth” and “it will also generate nearly \$2 trillion of added revenues”⁷ — predictions that mainstream economists scoff at.

Trump Administration officials are also echoing these claims. Council of Economic Advisers Chair Kevin Hassett contends that the GOP tax plan's corporate rate cuts will cause large increases in typical workers' wages⁸ — a claim that leading economists have

⁵ Sam Brownback, “Tax Cuts Needed to Grow Economy,” *Wichita Eagle*, July 29, 2012, <http://www.kansas.com/opinion/opn-columns-blogs/article1096336.html>.

⁶ Michael Mazerov, “Kansas' Tax Cut Experience Refutes Economic Growth Predictions of Trump Tax Advisors,” Center on Budget and Policy Priorities, updated August 12, 2016, <https://www.cbpp.org/research/federal-tax/kansas-tax-cut-experience-refutes-economic-growth-predictions-of-trump-tax>.

⁷ Stephen Moore, “Trump's Tax Cut: ‘Show Me The Money,’” *Washington Times*, October 1, 2017, <https://www.washingtontimes.com/news/2017/oct/1/tax-cut-under-trump-will-spur-economic-growth/>.

⁸ Council of Economic Advisers, “Corporate Tax Reform and Wages: Theory and Evidence,” October 2017, <https://www.whitehouse.gov/sites/whitehouse.gov/files/documents/Tax%20Reform%20and%20Wages.pdf>.

shown rests on assumptions they describe as “ludicrous.”⁹ Similarly, Treasury Secretary Steven Mnuchin says that the GOP tax plan will boost growth so much that it will *reduce* budget deficits by \$1 trillion,¹⁰ a claim no mainstream economist considers plausible.

In contrast, the non-partisan Tax Policy Center (TPC) expects “the framework to have little macroeconomic feedback effect on revenues over the first decade.”¹¹ And Moody’s Analytics has concluded that the GOP tax plan “will not meaningfully improve economic growth, at least not on a sustained basis” and that the plan “would add significantly to future budget deficits and the nation’s debt load, even after accounting for any economic benefits.”¹²

The Kansas experience is especially relevant today because the GOP tax plan largely replicates key provisions of the Kansas tax cuts.

- **Cutting the top rate on “pass-through” income and providing powerful incentives for tax avoidance.** The Kansas tax cuts exempted “pass-through” income — income from businesses such as partnerships, S corporations, and sole proprietorships that filers report on individual tax returns — from the Kansas income tax, while setting the top tax rate on wages and salaries at 4.6 percent. This produced a large differential in tax rates — 4.6 percent vs. zero — that led thousands of salaried individuals in Kansas to reorganize themselves as pass-throughs in order to avoid state income tax.¹³ Now, the GOP’s tax plan would cut the top federal tax rate on pass-through income to 25 percent — far below the 35 percent top federal tax rate that the GOP plan proposes for salaries and wages. That would produce an even larger differential than in Kansas and hence provide an even greater incentive for tax avoidance.

The pass-through proposal included in the GOP tax plan would lose \$770 billion in revenue over ten years and primarily benefit the most well-off, TPC estimates. TPC also concludes that a significant share of that cost would come from increased tax-

⁹ Damian Paletta, “Objective Analysis’ or ‘an absurdity’? Life as Trump’s top economist,” *Washington Post*, October 12, 2017, <https://www.washingtonpost.com/news/business/wp/2017/10/12/objective-analysis-or-an-absurdity-life-as-trumps-top-economist/>.

¹⁰ Saleha Mohsin and David Welch, “Economists Dispute Mnuchin’s Claim of Tax Plan’s Deficit Cut,” *Bloomberg*, September 28, 2017, <https://www.bloomberg.com/news/articles/2017-09-28/mnuchin-says-3-growth-very-very-doable-under-trump-tax-plan>.

¹¹ TPC Staff, “A Preliminary Analysis of the United Framework,” Tax Policy Center, September 29, 2017, http://www.taxpolicycenter.org/sites/default/files/publication/144971/a_preliminary_analysis_of_the_unified_framework_0.pdf.

¹² Mark Zandi, “U.S. Macro Outlook: An Unpalatable Tax Plan,” *Moody’s Analytics*, October 10, 2017, <https://www.economy.com/dismal/analysis/commentary/298300/US-Macro-Outlook-An-Unpalatable-Tax-Plan/>.

¹³ Jim Tankersley, “Kansas Tried a Tax Plan Similar to Trump’s. It Failed.” *New York Times*, October 10, 2017, https://www.nytimes.com/2017/10/10/us/politics/kansas-tried-a-tax-plan-similar-to-trumps-it-failed.html?_r=0.

avoidance activity, as high-income earners and numerous firms reclassify income from salaries as pass-through income to take advantage of the 25 percent tax rate on such income.

The aforementioned Rep. Jenkins has suggested that the GOP tax plan carries less tax-avoidance risk than the Kansas plan did because the federal pass-through rate wouldn't be cut to zero (and the corporate tax rate would be at a similar level). But the provision's tax avoidance incentive comes from the *gap between the top tax rate on salaries and the much lower pass-through rate*. And the savings from tax avoidance — at 10 percent of income under the GOP tax plan — would be *more than double* the gain from tax avoidance under the Kansas tax cuts, which equaled 4.6 percent of an individual's income.

Boosters of the GOP tax plan claim they will come up with rules to prevent tax avoidance under their pass-through proposal. But no one should give that assertion much credence. Proponents of this tax cut have said for months that their plan will include rules preventing tax avoidance, but they've yet to present any proposals to do that. And tax experts are deeply skeptical that Congress and the Administration could write and enforce rules that would be effective in preventing such tax avoidance.¹⁴

- **Individual income tax rate cuts.** The Kansas tax cuts lowered the state's top individual income tax rate from 6.45 percent to 4.6 percent and shrunk the number of income tax brackets from three to two. The GOP tax plan would cut the top federal individual income tax rate from 39.6 percent to 35 percent and the number of tax brackets from seven to three. Both approaches result in a less progressive income tax, with the rate cuts delivering the biggest boosts to filers at the top of the income scale.

These and other tax cuts in the GOP tax plan that also are tilted to people at the top result in the same regressive structure as under the Kansas plan, which gave its greatest gains to the top 1 percent of Kansans.¹⁵ Republican leaders' plan would deliver 80 percent of its net tax cuts to the top 1 percent, TPC estimates.¹⁶

Swelling the Budget Deficit

States must balance their operating budgets each year. The federal government, by contrast, can run deficits, which makes it easier for federal lawmakers to try to hide the tradeoffs that became clear in Kansas. Kansas' tax cuts caused revenues to plummet, leading to cuts to services, delays to road projects, and underfunded schools. Federal lawmakers may try to obscure the threat these tax cuts would pose to important federal programs by

¹⁴ For a discussion of tax experts' responses to this avoidance possibility, see Chuck Marr *et al.*, "Trump Tax Plan's Pass-Through Tax Break Would Provide Massive Windfall to the Wealthy," Center on Budget and Policy Priorities, updated May 22, 2017, <https://www.cbpp.org/research/federal-tax/will-new-trump-tax-plan-include-pass-through-tax-break-for-wealthiest>.

¹⁵ Institute on Taxation and Economic Policy, "Tax Bill Signed by Governor Brownback Makes Kansas an Outlier," May 24, 2012, <https://itep.org/wp-content/uploads/KSFamilies.pdf>.

¹⁶ TPC staff, 2017.

adding the cost to deficits under standard budget estimates, while promising that the tax cuts will produce such strong economic growth that they will pay for themselves. However, the added costs and swollen deficits that the tax cuts would produce likely would lead sooner or later to substantial budget cuts, harming many middle- and lower-income families.¹⁷

Both the President's budget and the Republican budget plans now before Congress call for deep cuts in programs like Medicaid and education and justify them on the grounds that *existing* budget deficits are too large. New tax cuts that further enlarge those deficits will only increase the threats to these and other programs.

In short, Kansas' tax cuts are an important cautionary tale that federal policymakers ignore at their constituents' peril. The Kansas experience sends a clear warning that the nation's policymakers should heed.

¹⁷ Chye-Ching Huang and Brendan Duke, "Vast Majority of Americans Would Likely Lose From Senate GOP's \$1.5 Trillion in Tax Cuts, Once They're Paid For," Center on Budget and Policy Priorities, October 4, 2017, <https://www.cbpp.org/research/federal-tax/vast-majority-of-americans-would-likely-lose-from-senate-gops-15-trillion-in>.