GOP Tax Framework Would Emulate Failed Kansas Experiment

Center on Budget and Policy Priorities

Massive tax cuts Kansas enacted in 2012 were among the largest ever adopted by a state, and delivered lopsided benefits to the wealthy. Key architects of Kansas' tax cuts, including Governor Sam Brownback and long-time tax cut advocates Stephen Moore and Art Laffer, are urging federal lawmakers to mimic Kansas' plan.

But the Kansas tax cuts are a cautionary tale, not a model: promises of immediate economic improvement failed to materialize; revenues plummeted, causing cuts to services, delays to road projects, and underfunded schools; and proponents used inaccurate and misleading economic data to defend poor outcomes. Recognizing that the tax cuts had led to financial crisis and budget shortfalls, lawmakers on a bipartisan basis reversed them in 2017.[1]

President Trump's campaign tax plan (which Moore and Laffer helped design) and the tax framework that President Trump and congressional Republicans announced on September 27 adopt key elements of the Kansas plan: large income tax rate cuts, and a special, even lower tax rate for "pass-through" business income.[2] Moore says the unified framework would be "a steroid injection for the U.S. economy" and predicted that "we'll see 3.5 to 4 percent growth."

Proponents Promised Massive Tax Cuts Would Deliver Economic Boom

In advocating for the Kansas tax-cut package, which tilted heavily towards the wealthy, Gov. Brownback claimed the Kansas tax cuts would act "like a shot of adrenaline into the heart of the Kansas economy." Moore and Laffer predicted that the cuts would have a "near immediate" positive effect on the state's economy.

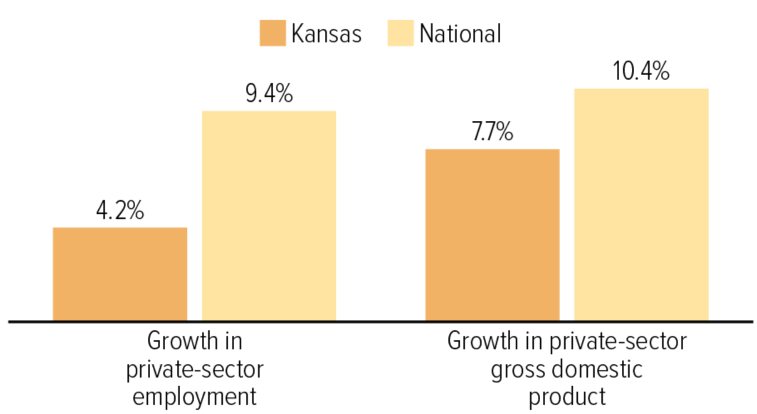
The tax package slashed individual tax rates and eliminated taxes on "pass-through" business income, that is, income from businesses such as partnerships, S corporations, and sole proprietorships that is currently taxed at the same rates as income from wages and salaries. Pass-through income is heavily concentrated among wealthy investors. Analysts across the political spectrum flagged the risk that the pass-through rate cut would create an incentive for high-income earners (such as lawyers, accountants, and other professionals) to claim more of their income as "business income" in order to get the lower rate.

What Happened in Kansas

The promised boom failed to materialize; Kansas' infrastructure, schools, and bond rating suffered; and a bipartisan coalition eventually reversed the tax cuts.

- Since the tax cuts took effect in January 2013, Kansas has lagged the nation in total private employment growth and economic growth (see chart).
- The tax cuts wreaked havoc on Kansas' ability to invest in its people and infrastructure. To balance its budget, the state employed gimmicks and one-time revenue, delayed road projects, cut services, and nearly drained funds it had set aside to prepare for the next recession. Two bond rating agencies downgraded Kansas due to its budget problems.
- The Kansas Supreme Court has ruled that state funding for K-12 education is inadequate and set an April 30, 2018 deadline for the state to raise taxes or other revenue, so that all Kansas children will receive an adequate and equitable

After Tax Cuts, Kansas' Economy Underperforming U.S. Economy



Note: Employment data cover Dec. 2012-May 2017; GDP data are inflation-adjusted and cover fourth quarter of 2012 through first quarter of 2017.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG education. Kansas' cuts in school funding since the Great Recession are among the nation's deepest, with the tax cuts making it hard to restore school funding.

- Bipartisan coalitions in both legislative houses in Kansas voted to reverse the tax cuts and reached the two-thirds supermajority needed to override Gov. Brownback's veto in 2017.

Defenders Relied on Inaccurate and Misleading Economic Data

In the face of these results, proponents of the tax cuts have used misleading data — or stopped reporting data that didn't support their claims — in continuing to defend the cuts.

- Stephen Moore wrote a 2014 *Kansas City Star* op-ed defending the tax cuts, but used incorrect data, *Star* columnist Yael T. Abouhalkah's follow-up reporting revealed. Moore and Laffer argued in a 2016 *Star* op-ed that the tax cuts generated an economic boost and was "sweet supply side revenge for tax cutters in Kansas" against their critics, but Abouhalkah found the claim rests on a highly selective and misleading citation of unemployment and job creation data.
- In 2016, Gov. Brownback and other officials stopped producing a quarterly "Kansas-specific review of economic markers picked by the administration and championed as an accountability test of its economic vision."[3]

GOP Federal Plans Head Down Same Path

The tax framework announced by President Trump and congressional Republicans adopts key elements from Kansas' tax cut plan:

- It would cut the top individual income tax rate to 35 percent and, in a version of the Kansas pass-through exemption, would cut the top rate on pass-through income from 39.6 percent rate to 25 percent.
- The proposed pass-through rate cut would cost $770 billion over ten years, accounting for about 30 percent of the tax plan's net cost, the Tax Policy Center estimates, and $129 billion in revenue lost due to tax avoidance by high earners.

These provisions are among the reasons why, like the Kansas plan, the Trump/GOP framework is costly and overwhelmingly benefits those at the top. Roughly 80 percent of the framework's net tax cuts would go to millionaires, and it would cost $2.6 trillion in the first decade.

The federal government doesn't have to balance its budget like Kansas does, but both the Trump Administration and House and Senate GOP leadership have budget proposals that would pair their tax cuts with large cuts to domestic investments.[4]

These policies are also being touted with promises of economic growth, with House Speaker Paul Ryan saying "if you want faster economic growth, more upward mobility, and faster job creation, lower tax rates across the board is the key — it's the secret sauce."[5] The Trump Administration has claimed the plan would pay for a large share of itself with through increased growth.

But there's ample evidence that large federal tax cuts for the wealthy are a poor way to secure growth.[6] The Kansas experience is another reason for skepticism, and with the Kansas legislature's 2017 vote to reverse the state's tax cuts, federal lawmakers would be well advised not to repeat the failed Kansas experiment.

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[1] Michael Leachman, "A Kansas Wake-Up Call for Other States Considering Big Income Tax Cuts," Center on Budget and Policy Priorities (CBPP), February 23, 2017, http://bit.ly/2mqpqX8; Michael Mazerov, "Kansas' Tax Cut Experience Refutes Economic Growth Predictions of Trump Tax Advisors," CBPP, updated August 12, 2016, http://bit.ly/2aRnSz9; and "Nick Johnson: Kansas Wise to Undo Failed Tax-Cut Experiment," CBPP, June 7, 2017, http://bit.ly/2r5RNvT.
[2] "Pass-Through Tax Break for the Wealthiest," CBPP, April 5, 2017, http://bit.ly/2qWcOJV.
[3] Tim Carpenter, "Gov. Sam Brownback, advisers abandon report of Kansas economy," *Topeka Capital-Journal*, September 24, 2016, http://bit.ly/2rUpSTx.
[4] CBPP, "Trump Budget's Racial, Harmful Priorities," May 26, 2017, http://bit.ly/2s45IDr, and "House Budget Roundup 2016: Everything You Need to Know About the House Budget Plan," April 7, 2016, http://bit.ly/20cd2IB.
[5] Matthew Yglesias, "Paul Ryan says tax cuts for the rich are 'even more pressing now,'" Vox, August 21, 2014, http://bit.ly/1we5kT9.
[6] "Tax Cuts for the Rich Aren't an Economic Panacea — and Could Hurt Growth," CBPP, updated October 10, 2017, http://bit.ly/2pPRxkl and Chad Stone and Chye-Ching Huang, "Trump Campaign's 'Dynamic Scoring' of Revised Tax Plan Should Be Taken With More Than a Grain of Salt," CBPP, September 15, 2016, http://bit.ly/2cALI3u.