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Keeping Ahead of the Kansans

Iowa's Neighbors Show the Folly of Drastic Cuts to State Income Tax

By Peter S. Fisher

As state legislators consider drastic cuts in Iowa's income tax, they would do well to consider the experience of our neighbor Kansas, which enacted a huge income tax cut in 2012, and cut taxes again in 2013. These cuts have dramatically reduced state funding for schools, health care, and other services.

These Kansas tax cuts were touted as a powerful economic development tool. Businesses and jobs would flock to Kansas, and growth would be so strong that, according to some, state tax revenues would actually increase.

Instead, the state of Kansas has been forced to cut school funding each year since enactment. At a time when the majority of states have increased education funding to make up for cuts during the recession, general state aid in Kansas has continued to fall, and per pupil funding is 15 percent below pre-recession levels[1], with school closings and increased class sizes the result. Two districts recently announced they will have to end the school year early for lack of funds.[2] The state recently abandoned the school funding formula; aid is no longer tied to enrollment. Most of the state's reserves have been used up just to keep services afloat, leaving the state with no cushion to soften the effects of the next recession. The state's bond rating has been lowered.[3]

As for the tax cut being "a shot of adrenaline" for the state's economy, as the governor predicted, the anticipated job growth did not materialize. Instead, private sector jobs in Kansas have grown by 3.5 percent since the tax cuts took effect, well below the 5.0 percent growth nationally over the same period.[4]

It is instructive to consider as well the experience in Wisconsin, where a large personal income tax cut took effect at the start of 2013, with similar results: subsequent job growth of 3.4 percent, farther below the norm than in Kansas.[5]

None of this should come as a surprise. Most major academic research studies have concluded that individual income tax cuts do not boost state economic growth; in fact, states that cut income taxes the most in the 1990s or in the early 2000s had slower growth in jobs and income than other states.[6] Businesses need an educated workforce, and drastic cuts to education are likely to make it difficult to attract new workers, who care about their children's schools at least as much as they care about taxes. Nor will income tax cuts help small businesses create jobs. Only a tiny fraction of those paying income taxes own a business, and of those most are not in a position to create more jobs, or can expand employment only if demand for their services increases, regardless of taxes.[7]

[1] Michael Leachman, "5 Pieces of Context for the New Kansas Budget." Off the Charts Blog, Jan. 16, 2015. http://www.offthechartsblog.org/5-pieces-of-context-for-the-new-kansas-budget/

[2] http://www.huffingtonpost.com/2015/04/03/kansas-schools-funding_n_7001244.html

[3] Reid Wilson, "Kansas bond rating downgraded after tax cuts." The Washington Post, August 6, 2014. http://www.washingtonpost.com/blogs/govbeat/wp/2014/08/06/kansas-bond-rating-downgraded-after-tax-cuts/

[4]Growth in total private employment, seasonally adjusted, from Dec. 2012 through January 2015, from the Bureau of Labor Statistics, Current Employment Statistics. The tax cut took effect in January, 2013.

[5] See note 4.

[6] Michael Leachman, Michael Mazerov, Vincent Palacios, and Chris Mai. *State Personal Income Tax Cuts: A Poor Strategy for Economic Growth*. Washington, D.C.: Center on Budget and Policy Priorities, March 21, 2013. http://www.cbpp.org/files/3-21-13sfp.pdf

[7] Michael Mazerov. *Cutting State Personal Income Taxes Won't Help Small Businesses Create Jobs and May Harm State Economies*. Washington, D.C.: Center on Budget and Policy Priorities, February 19, 2013. http://www.cbpp.org/files/2-19-13sfp.pdf

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