

## Proof positive? Revenue gains don't mean tax policy's working

The recent uptick in state income tax revenue touted as proof that the 2012 tax cuts are stimulating Kansas' economy is anything but.

Revenue Secretary Nick Jordan noted earlier this month that Kansas personal income tax collections came in at 5.7 percent greater than in April of last year. This, he said, confirmed the administration's contention that "a fiscal environment where Kansans get to keep and invest more of their paycheck would bring economic growth to the state."<sup>1</sup>

But the main reason why tax collections are up has nothing to do with the administration's policy choices. Many states across the country are also experiencing significant jumps in revenue in the first quarter of this year. Doesn't matter whether they cut taxes or not. Here are some examples:

- In Nebraska
- In Ohio
- In Illinois
- In Wisconsin

Why are so many states seeing revenue come in faster than projected? The major reason was explained by the nonpartisan Nelson A. Rockefeller Institute of Government in Albany, N.Y.:

"Throughout 2012, taxpayers knew that federal income tax rates were scheduled to rise in 2013 ... Taxpayers had an incentive to accelerate income into 2012 from 2013 and later years, to

lower their overall tax liability. Capital gains are the easiest form of income to move, but the incentive was there for other income as well."

Meaning, because the Bush tax cuts were expiring at the end of 2012, higher-income individuals sold stocks or collected other income before the year ended to avoid the higher tax. That's boosting state revenue collections around the country.

Take a look at what's happened in Kansas over the last few months. Unanticipated collections in December and January provided Kansas with 19 percent<sup>2</sup> more in income tax receipts than what was predicted. While a welcome windfall, these collections were followed by collections that were 10 percent below estimates for February through April of this year. This roller coaster of collections illustrates what the Rockefeller Institute is talking about. It means that Kansans sought to avoid higher federal taxes by selling assets in 2012, and that selling surge largely caused a one-time revenue spike.

This is important because some lawmakers may believe Secretary Jordan's assessment and think that Kansas now has extra money it should spend on more tax cutting. That would be very damaging. As Senate Majority Leader Terry Bruce suggested, the revenue boost was "one-time money."<sup>3</sup> It's a bump that won't be repeated in the future, and so won't be available in the future to fund schools and other public services. As the Rockefeller Institute warns, "the

temptation will be to treat it as recurring revenue available to support ongoing spending, or available for tax cuts. Caution is in order.”

This warning is being repeated by revenue experts around the country in other states that are seeing the same thing. In Illinois, for example, the state’s revenue forecasting agency warns that the revenue surge “is not repeatable in future fiscal years, and should be viewed more in terms of a ‘one-time’ event.”

The truth is that the adrenaline shot to the heart

of the Kansas economy that tax cut proponents promised has yet to materialize. Worse, while it is too soon to fully understand the damage wrought by those tax cuts, it’s not too early to see the yawning gap between the revenue Kansas has available and the deteriorating public investments Kansas needs to build a strong future economy. We may have seen a recent revenue surge, but the revenue needed to maintain public investments in education, safety, transportation and other areas vital to Kansas’s economic future is still not there.

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1 See Scott Rothschild, “Revenue Secretary Says Tax Cuts Are Working,” May 5, 2013, available at <http://www2.ijworld.com/news/2013/may/05/revenue-secretary-says-tax-cuts-are-working/>

2 Kansas Division of the Budget

3 See John Hanna, “Unexpected Revenue Boost Helps Narrow Budget Shortfall,” January 10, 2013, available at <http://cjonline.com/news/2013-01-10/unexpected-revenue-boost-helps-narrow-budget-shortfal>