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A Billion-Dollar Showdown in Kansas.

Kansas Gov. Sam Brownback kept his tax reform package — and its \$1 billion budget shortfall — intact this week by preserving a tax loophole that lets scores of business owners pay no income tax.

At issue is a tax exemption for what are called pass-through businesses. These businesses are not incorporated, and therefore are not subject to the corporate income tax. Instead, income is reported on the business owners' personal tax returns. Pass-through businesses are typically small but also include some major companies like Chrysler and Kaiser Permanente.

Brownback's 2012 tax reform packages exempted the state's more than 330,000 pass-through businesses from any income tax. Experts like the Tax Foundation warned at the time the package would lead to deficits and encourage tax dodging. Still, lawmakers five years ago not only signed off on the idea, they stuck back in some of the credits and deductions that Brownback would have eliminated to help pay for the cuts.

The Takeaway: The Kansas Legislature tried but failed this week after a Brownback veto to eliminate the pass-through exemption in an effort to raise revenues. The events indicate a far different legislature from the one in 2013 that, facing a \$300 million revenue gap, could only stomach cutting spending by \$150 million.

Years of dealing with shortfalls seem to have worn legislators down. "Everything's going to be chaotic for a while," House Minority Leader Jim Ward told the Kansas City Star. "At the end of the day, you're going to see a plan substantially similar to what was rejected by an obstructionist governor and his followers in the Senate."

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