

TO: Representative Marvin KleeB, Chair  
House Taxation Committee  
300 SW 10th Ave., 185-N  
Topeka, KS 66612

FROM: LeEtta J. Felter, citizen of Olathe, Kansas

DATE: March 15, 2016

SUBJECT: Testimony in support of HB 2444

Thank you for your service to Kansas, and for the opportunity to testify as a proponent on behalf of HB 2444.

My name is LeEtta Felter and I am a citizen of Olathe, Kansas and a small business owner of multiple LLC's. It should be noted that my testimony in support of HB 2444 will have a fiscal impact on me and my family, as it will close the loophole that has allowed 333,792 tax filers to pay zero income taxes on personal income in the state of Kansas. Yet, today I implore you to close the loophole and fix the dire situation that it has caused here in the state of Kansas.

I believe taxes are good. Yes, I actually said that...taxes are good...without taxes civilization doesn't work. Taxes pay for the roads we all drove on to get to Topeka today. Taxes pay for national defense, fire, and the police. Taxes pay for lighted streets, great universities, public education, hospitals, courts of law, public transit, parks and sewers. Taxes make the marketplace work by maintaining a regulated business environment to protect property rights, enforce fair practices and protect consumers and investors. Taxes provide us benefits every hour of the day, every day of the year. Taxes allow residents and businesses to do things together that we could never be able to do on our own.

Sound tax policy is vitally important in order for Kansas to thrive. Tax legislation should be based on sound legislative procedures and careful analysis that does not choose winners and losers. The purpose of taxes is to raise needed revenue, not to favor or punish. Most experts agree that tax policy that has a broad base and low rates is the most effective, meaning that there is a corollary to the principle of neutrality and that lawmakers should avoid enacting targeted deductions, credits and exclusions. When tax preferences are minimum, substantial (and stable) tax revenue can be raised with low tax rates. Simply put, good tax policy promotes economic growth.

The tax pass through loophole, created back in 2012 when Kansas passed income tax reform, has allowed 333,792 tax filers to become 100% tax exempt - they pay a ZERO income taxes on their personal income. These 333,792 Kansans enjoy all the benefits that Kansans income taxes provide, and yet they pay no income tax. The tax pass through

loophole problem grows bigger every year. In 2012, 191,000 tax filers used the loophole. By 2015 it had already grown to be used by 333,792 tax filers and will get bigger each year if not repealed. Every tax filer that uses the loophole means another tax filer is coming off the tax rolls and paying zero taxes. This problem will continue to grow each year until it is addressed.

The loophole has caused at least a \$250 million annual loss to the state treasury and continues to make the budget unstable. With recurring revenue shortfalls creating a fiscal crisis for Kansas we must close the loophole. Fiscal year 2017, which starts in July, is projected to be \$175 million short. If we ignore or postpone closing the loophole the solutions become more expensive in the future.

Just to highlight the enormity of this loophole in an interesting comparison...if Kansas were to legalize marijuana the change would yield roughly \$70 million in tax revenue annually, not even a third of the amount that the loophole has cost Kansas.

Past generations paid taxes for what we have today – roads, schools, hospitals, courts of law, roads, public transit, parks. Our taxes today allow us to sustain our exceptional state and to pass along those benefits to future generations - our children, grandchildren and great grandchildren. Please correct the loophole and bring fairness and sustainability to Kansas tax policy.