

Testimony on HB 2444

House Taxation Committee

By Kenneth Harshberger

Thank you Chairman KleeB and members of the House Taxation Committee for the opportunity to share my testimony.

I am Kenneth Harshberger, and I own a family farming business and previously owned Heart and Home Catering. I am a lifelong resident of southwest Kansas and have been a teacher, principal, superintendent, and have farmed for 35 years. I currently live in Meade, Kansas but still farm in Minneola.

Like most individuals, on the surface reducing taxes seems to be a good thing. As a farmer and business owner, the income tax changes in 2012 allowed us to no longer pay any state income tax. I farm with my mom, who also pays no state income taxes on her farm. While most Kansans received reduction in income taxes as a result of this legislation, there have been a number of unintended consequences which are not in the best interest of the people of Kansas.

First and foremost the biggest concern with the current tax plan is a fairness issue. Over 330,000 business owners (including us) no longer pay any state income tax, but all those working for those businesses for a wage continue to pay income tax. Our children who work for our business pay state income taxes, but our business has become exempt. I have had dozens of business owners tell me personally this was blatantly unfair to their employees. My personal accountant who completes hundreds of business income taxes has indicated that only one individual has felt this was right. Our school district auditor also told me directly how unfair the current tax plan is to wage earners. He is one of the owners and pays no state income taxes, yet all of his employees do. Even my 85 year old mother who still lives on the farm has stated plainly, "This is not right!" By a two to one margin, Kansans in my legislative district indicated they wanted business income tax restored according to the result released by our own representative.

Another concern about fairness involves the increase in sales tax during the past legislative session instead of restoring some of the income tax. The poorest of Kansans are now paying a larger portion of their small incomes due to higher sales tax just to purchase basic necessities. It is my understanding that Kansas now has the highest sales tax on groceries in the United States. This high sales tax of food does not represent the values that Kansans hold dear. Another concern involves the increase of property taxes by cities, counties, and schools trying to fill their budget holes created by loss of state revenue. While most Kansans like the idea of lower income taxes, when it forces local entities to raise property taxes to make up the differences this creates another concern about fairness.

The second major concern involves the state not having a stable revenue source to fund essential programs in the way Kansans want and desire. Budgeting in Kansas has recently been a Band-Aid

approach because revenue continues to not meet expectations. If the tax law had not changed in 2012, it is my understanding that Kansas would have about \$800,000,000 in additional state income tax revenue each year. As a result of this loss, the state budget for several years has been balanced by mid-year cuts, sweeping funds, transferring funds from KDOT, raising sales tax, using one time funds, delaying payments to KPERS, and reducing expenditures to many essential services or agencies in the state. The state has also continued to increase debt through KDOT bonding and KPERS bonding. Without a stable revenue stream, this creates serious financial issues for long term debt service which will be passed on for generations to come. Kansans want quality services whether that be for our state hospitals, roads, elderly, or schools. Even a recent Docking Institute survey indicated that 77% of Kansans want funding for public schools to increase. Without stable revenue and an increase in state revenue, this will be extremely challenging and additional cuts may occur to education just like what happened this past week to funding for the regent schools.

I understand that oil and gas prices along with low commodity prices have impacted state revenue this year, but the lack of a solid revenue stream cannot be blamed totally on this and a lackluster national economy. I support being fiscally responsible by maintaining appropriate expenditures as I do this every day in my position and business. However, cutting income taxes to the tune of approximately \$800,000,000 a year has created a revenue problem which has devastated state budgeting and hurt essential services to all Kansans.

No longer exempting businesses (including my own) as this bill advocates will help provide some stability to our state revenue. I believe this is the most important piece of this legislation. Reducing the sales tax on food is also admirable because this will help all Kansans especially the poorest. However, I am concerned that the bill in the present form is just "a wash" in terms of revenue and does not increase state revenue. While this bill buys down the sales tax to 2.6% on food, I would ask that the sales tax only be lowered to a level where significant additional revenue is brought into the state. Even lowering it from the current 6.5% to the old rate of 6.15% helps most Kansans and still increases significant revenue.

There are current provisions in this bill which I do not support, but fixing the issues created by eliminating taxes on so many businesses is essential if we are to further repair our state budget and bring fairness to Kansas taxpayers. Numerous reports, polls, and surveys have indicated that this is what the people of Kansas want, so I urge you to listen to the people and restore taxes on businesses (including my own) for the many reasons shared in my testimony.

Thank you once again for the opportunity to provide this testimony concerning HB 2444.