



Responsible Policy. Real Prosperity.

March 15, 2016

Annie McKay, Executive Director
Kansas Center for Economic Growth
House Bill 2444 Testimony
House Taxation Committee

Chairman Kleeb and Members of the Committee:

The Kansas Center for Economic Growth (KCEG) is a nonprofit, nonpartisan organization dedicated to promoting balanced budget and tax policies that help ensure all Kansans prosper. On behalf of all Kansans, we urge the committee to consider a comprehensive, sustainable solution to re-balance Kansas tax policy. **Although KCEG supports closing the non-wage business tax exemption, we are neutral on House Bill 2444. It is simply not realistic, given the current fiscal crisis we are facing, to lower the food sales tax rate before we address the ongoing structural imbalance with our budget and achieve a positive ending balance.**

The state of Kansas is in fiscal crisis. Unprecedented changes to tax policy have left the state without the resources necessary to provide services for Kansans. Recurring declines in revenue continue to be detrimental to Kansas' ability to invest in our schools, roads, public safety, and communities. The state has wiped out its savings and resorted to one-time sweeps and transfers that jeopardize our fiscal health. This leaves the state with a \$326 million structural imbalance for Fiscal Year 2016, and the problem will only grow more dire until the Kansas Legislature and Governor revisit the state's overall tax policy.

Closing the loophole is a good first step toward rebalancing our state's finances. Currently, 330,000 Kansans pay no income tax at all. We applaud Kansas lawmakers who support rescinding this policy, as it has not resulted in the promised surge in our economy. In fact, Kansas' job growth continues to lag behind our neighbors and the nation. *We support the provision of House Bill 2444 that closes the loophole that exempts more than 330,000 Kansans from paying income tax.*

Policymakers also need to revisit the "march to zero". Repeated reductions in the individual income tax rates are responsible for the majority of lost revenue since the tax plan was enacted. Future reductions will further harm our state's finances. The "march to zero" has only just begun with the state still receiving nearly 40% of revenues from income tax and we currently find ourselves living paycheck-to-paycheck.

Once Kansas' tax policy is rebalanced, policymakers can – and should – address tax shifts that have harmed working Kansans. Working Kansans have paid for dramatic shifts in Kansas tax policy. Last session, Kansas policymakers passed a significant tax increase to offset revenue loss from unaffordable tax policy changes, which resulted in Kansas' sales tax on food being the second-highest in the nation. Kansas eliminated provisions of the tax code intended to help low-income and working Kansans, including the refundable food sales tax rebate, the state child tax credit, and the homestead property tax refund for renters.

A comprehensive plan to rebalance Kansas' tax policy should include a discussion of the state's high food sales tax rate, for all of the reasons presented by the proponents of House Bill 2444. We simply cannot afford tax policy changes that further reduce state revenue.