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Testimony on SB 508
Senate Assessment and Taxation Committee
Bernie Koch, Kansas Economic Progress Council
April 28, 2016

Mr. Chairman and members of the committee, thank you for the opportunity to give testimony on Senate Bill 508. The Kansas Economic Progress Council is a not for profit membership organization of businesses and individuals interested in advancing sound public policy in Kansas to enhance our state's quality of life.

I am testifying as neutral because the bill as written does not solve the long term structural budget problems of Kansas. However, it moves us in the right direction.

There are two points I want to make. The first you have heard before. The income tax cuts are not boosting our economy.

To that end I simply point out that the most recent Indicators of the Kansas Economy done by the Governor's own Council of Economic Advisors continues to point to lackluster economic growth.

The report does show a few positives but many negatives.

We lagged the region in:

- population growth
- personal income growth
- total nonfarm employment growth and private sector employment growth
- private establishment growth.

Gross state product, which is how we measure economic growth, was not only behind the region and the country, it was negative growth, 1.1 percent. I would remind you that these are the Governor's own benchmarks.

The Governor said in 2012, "These economic metrics will allow us to determine the state's relative economic position as it relates to the six-state region and the nation, and to monitor in a timely manner if our policies and initiatives are having the desired economic effect."

I look at the Governor's own report and conclude that this is not what success looks like.

The second point is that the idea of shifting the burden of state government finance from income to sales taxes was flawed. It's not working and we need to begin shifting back to the income tax.

That decision in 2012 was made without adequate consideration of whether the sales tax could support the burden and especially the affect of the sales tax on business in Kansas.

I was surprised to learn that 45 percent of all sales tax collected in Kansas is paid by business on business inputs. That information comes from the Council on State Taxation, or COST.

COST is a nonprofit trade association, which has an independent membership of nearly 600 major corporations engaged in interstate and international business. It was formed in 1969 because no central resource existed on state and local taxes across the United States.

I want to be clear on this. COST says 45 percent of all sales tax collected in Kansas in Fiscal Year 2014 amounted to 1.6 billion dollars. That was paid by business. That's not what business collected for the state on sales. It's what businesses paid on business inputs, on what they purchased to run their businesses.

Why is the sales tax not performing in Kansas?

There may be clues in a 2013 report prepared by Ernst & Young for the Council on State Taxation about the sales tax on business inputs. Remember, we increased the sales tax last year and 45 percent was on business.

Here are some of the statements from that report:

"A sales tax on business inputs is an additional cost of doing business in the state, which companies must either attempt to pass on to their customers or reduce their economic activity in the state. A sales tax on business inputs imposes a particular burden on in-state businesses selling in regional or national markets, since they are less able to pass the added cost on to out-of-state customers and thus are likely to reduce their investment and employment in the state in response to relatively high sales taxes on their input purchases."

"Over 40 percent of state sales taxes are collected from taxation of business inputs, whose costs are generally hidden and unrecognized in the form of higher consumer prices and/or reduced state economic activity, including reduced employment and lower wages."

In other words, part of our problems may be the result of our sales tax increases and their impact on business.

Government stability in revenue and services is a strong foundation of business growth. We support a return to income tax to balance our revenue streams.

Thank you for your consideration of our position on Senate Bill 508.

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Summary for KANSAS Based on Recent COST Scorecards and Studies*

Property Tax Administration Overall Grade: C

- Transparency: C
 - Property tax laws are on a centralized website but not the regulations
 - Internet document explaining property tax system is very limited
- Simplicity & Consistency: C
 - Assessment ratios vary greatly by type, from 11% to 33% of fair market value
 - Annual appraisal cycle with physical inspection every six years
 - Intangible property is not exempt
- Procedural Fairness: D
 - Interest on underpayments is 4-6%, interest on overpayments is 2-6%
 - Appeal period is 30 days for real property and 14 days for personal property
 - Property tax litigation over expansion of real property definition (personal property being phased out)

State Tax Administration Overall Grade: A-

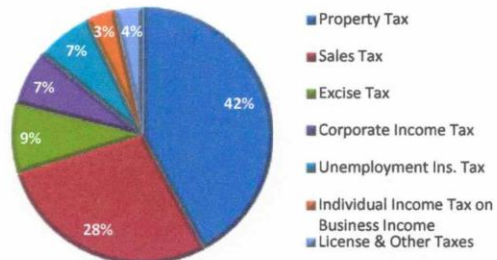
- 125% bond is required when appealing a COTA decision
- No definition of final determination

Unclaimed Property Statutes Overall Grade: B+

- Unclaimed property statutes do not address appeals
- Contingent fee audits are not banned
- Penalty for failure to report is \$100 per day; for failure to pay, 25% of the property value; willful failure to pay is a Class B misdemeanor with up to 6 months imprisonment

FY13 State and Local Business Tax Burden (\$billion)

Type of Business Tax	Kansas
Property Tax	2.4
Sales Tax	1.6
Excise Tax	0.5
Corporate Income Tax	0.4
Unemployment Ins. Tax	0.4
Individual Income Tax on Business Income	0.2
License & Other Taxes	0.2
Total Business Taxes	5.7
Total Effective Business Tax Rate (TEBTR)	4.7% (29 th)



Sales Taxation of Services and Business Inputs Study

- Estimated percentage of state and local sales taxes imposed on business input purchases: **45%**

State and Local Business Tax Competitiveness Index

- Weighted Capital Investment Rank: **48**
- Jobs Rank: **48**

* COST Scorecards

[The Best and Worst of International Property Tax Administration Scorecard – September 11, 2014](#)

[The Best and Worst of State Tax Administration – December 16, 2013](#)

[The Best and Worst of State Unclaimed Property Laws – October 2, 2013](#)

[COST Studies](#)

Total Effective Business Tax Rate – FY 2014
From the Council on State Taxation

11.5%	North Dakota
8.9	Alaska
7.3	Wyoming
5.4	Nevada
5.4	Washington
5.2	Florida
4.9	Texas
4.7	<u>Kansas</u>
4.7	Oklahoma
4.6	South Dakota
4.3	Nebraska
4.2	Tennessee
4.1	New Hampshire
3.5	Missouri
3.4%	Colorado, Oregon, and Connecticut

U.S. Average 4.6%