



Responsible Policy. Real Prosperity.

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Senate Bill 508 Testimony

Senate Assessment and Taxation Committee

Chairman Donovan 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 Senate Bill 508. The current fiscal crisis we are facing is driven by the entirety of the income tax changes in 2012 and 2013, not just the exemption on non-wage business income. Rescinding the income tax changes as a whole is the only assured means to 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 \$416 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 only a half-measure 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 since the tax cuts went into effect. *While we are favorable of the intent of Senate Bill 508 to begin to close the loophole exempting more than 330,000 Kansans from paying income tax, it does not fully correct the structural imbalance in the budget caused by the tax changes of 2012 and 2013.*

Policymakers 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. We currently find ourselves considering measures that are one-time fixes at best and jeopardize Kansas' long-term fiscal and economic security at worst.

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.

Kansas policymakers should undertake a comprehensive plan to rebalance Kansas' tax policy. This should include a discussion of the non-wage business income exemption, as well as the unprecedented and unaffordable reductions in individual income tax rates. Kansas' tax policy is in need of a complete rebalancing, and, while Senate Bill 508 has admirable intentions, it simply will not solve our fiscal plight in its entirety.