

MINUTES OF THE HOUSE TAXATION COMMITTEE

The meeting was called to order by Chairman Richard Carlson at 9:07 a.m. on January 28, 2010, in Room 783 of the Docking State Office Building.

All members were present.

Committee staff present:

Gordon Self, Office of the Revisor of Statutes
Scott Wells, Office of the Revisor of Statutes
Chris Courtwright, Kansas Legislative Research Department
Brandon Riffel, Kansas Legislative Research Department
Marla Morris, Committee Assistant

Conferees appearing before the Committee:

Kent Eckles, Kansas Chamber of Commerce
Representative Arlen Siegfried
Mark Tallman, Kansas Association of School Boards (KASB)

Others attending:

See attached list.

Bill Introductions:

Ron Hein, Kansas Restaurant Hospitality Association requested introduction of a bill that would allow a tax deduction to be taken at the state level when the employer chooses to use the credit process under federal law. Representative Goico moved to introduce a bill that would allow a tax deduction to be taken at the state level when the employer chooses to use the credit process under federal law. The motion was seconded by Representative Powell. The motion carried.

Chairman Carlson opened the hearing on:

HB 2463 - Establishing the simplified state tax structure committee.

Staff Brandon Riffel, Kansas Legislative Research Department, gave a brief summary of **HB 2463**. Mr. Riffel and Staff Chris Courtwright, Kansas Legislative Research Department, stood for questions.

Proponents:

Kent Eckles, Kansas Chamber of Commerce presented testimony in favor of **HB 2463** (Attachment 1). The Chamber welcomes the establishment of a Committee on Simplified State Structure to explore ways in which to make the state more competitive economically and grow the tax base by adding new jobs. He stood for questions.

Representative Siegfried summarized his purpose for introducing **HB 2463**. Establishment of a committee to explore ways to broaden the tax code and simplify the tax structure, would result in methods to make the tax code for the State of Kansas easier for the citizens to understand. He stood for questions.

Mark Tallman, Kansas Association of School Boards (KASB) testified in favor of **HB 2463** (Attachment 2). Mr. Tallman stated the KASB has repeatedly advocated a comprehensive study of the state tax policy. He stood for questions.

There were no opposing conferees to testify on **HB 2463**.

Chairman Carlson closed the hearing on **HB 2463**.

The next meeting is scheduled for February 2, 2010.

The meeting was adjourned at 10:30 a.m.

HOUSE TAXATION COMMITTEE

DATE: January 28, 2010

NAME	REPRESENTING
Cliff Eckles	CS Chamber.
Mark Tallman	IASB
GENE MEYER	KANSAS REPORTER
Mark Desetti	KNET
Sarah Freeman	Item For Rep. Grant
JUDITH GANN	CAPITOL ADVANTAGE
Moji Fanimokun	LKM
Joe Morimann	Pmca
Wigh Keck	Main law firm
Richard Crum	KDOR
Michelle Peterson	Capital Strategies
Da Murray	NFIB
John Donky	KS Bus. Ass'n
Natalie Boyl's	KSCPA

Testimony before the House Tax Committee
HB 2463 – Establishing the Committee on Simplified State Tax Structure
Presented by J. Kent Eckles, Vice President of Government Affairs

Thursday, January 28th, 2010

The Kansas Chamber of Commerce appreciates the opportunity to present testimony in favor of HB 2463, which would establish the Committee on Simplified State Tax Structure.

We heard Governor Parkinson claim we're "above average" in our tax burden according to the Tax Foundation, which ranks us at 21st nationally. Also according to the Tax Foundation, Kansas ranks 32nd nationally in business tax burden, which of course is below average. (See attachment)

Each year the Kansas Chamber commissions an Annual Competitive Index, which compares nearly 80 metrics against our peer states (surrounding geographic states plus Iowa). State Business Tax Structure and Business Tax Burden are but two of them and we rank 37th and 39th respectively for each metric. (See attachment)

These rankings are clearly politicized and used by different groups to make their point, so we would like to share some research we did into other "business friendliness" national rankings that clearly show a consistent picture with regard to the state's tax climate.

We contacted each source below to ascertain the metrics they used in determining their ranking for "business friendly" climate. As expected, each source uses different metrics and weighs them differently. For each source, metrics can (or cannot) include: tax climate, tax structure, tax burden, business costs, labor supply, regulatory climate, quality of life, right to work state, transportation infrastructure, workers compensation costs, unemployment insurance costs, cost of living, quality of public schools, energy costs and many more. If you extrapolate the tax climate rankings from the following overall rankings for each source, here's what you get:

- ★ Forbes' Business Rank – 15th
 - ★ 25th in business costs, including taxes
- ★ ALEC-Laffer State Economic Competitiveness Index – 24th
 - ★ 27th for personal income taxes, 25th for corporate income tax rate, 33rd for property tax burden & 37th for sales tax burden
- ★ Pollina Corporate Real Estate Rank – 7th
 - ★ 33 metrics including taxes, but individual metrics' rankings & weightings not available
- ★ Ball State Center for Economic Research – C Grade
 - ★ Corporate, income, sales, property and unemployment insurance taxes
- ★ CNBC Business Rank – 7th
 - ★ 25th in business costs, including taxes

Considering all the aforementioned rankings, it is evident Kansas ranks in the low-20s to mid-30s in State Business Tax Structure, State Business Tax Burden and Business Tax Predictability. We believe the state has room to improve in these areas. Average to below average is not good enough if we want to make the state the best in the nation in which to do business.

The bottom line is taxes matter to business and Kansas definitely has room to improve. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly,

taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus, a state with lower tax costs will be more attractive to business investment, and more likely to experience economic growth.

Further, states do not enact tax changes (increase or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

We would also like to address the debate about why Kansas is in this budget mess. On one side we hear it is because we have cut too much in taxes over the years. On the other hand, we hear it is because the state has been experiencing unrestrained budget growth. We obviously agree with the latter assertion and the evidence clearly backs this up.

What happened to state revenues when we cut estate taxes in 2005, franchise taxes in 2007 and reduced corporate income taxes in 2008? Attached are three slides showing tax elasticity for estate, franchise and corporate income taxes from the Governor's 2009 Tax Elasticity Report. As you can see from each specific tax, revenues actually increased to the state once the tax reduction measure was passed. Source: http://budget.ks.gov/files/FY2009/2009_Elasticity_Report.pdf

Also attached is a graph showing the rate of budget growth in Kansas between '93-'09 relative to inflation. As you can see, cumulative inflation over that period was 43% while the state's budget grew a staggering 250%.

We do acknowledge taxes are not the only consideration businesses have when deciding to locate in Kansas or relocate from Kansas. Attached are the results from Area Development Magazine's 2009 Annual Corporate Survey in which they ask site location consultants throughout the country "What factors are very important or important to your clients (businesses) when considering relocation?" (See attachment).

The Kansas Chamber welcomes the establishment of a Committee on Simplified State Tax Structure to explore ways in which to make the state more competitive economically and thus grow our tax base by adding new, high-paying jobs to in Kansas.

We urge the Committee to pass favorably House Bill 2463.

The Kansas Chamber, with headquarters in Topeka, Kansas, is the leading statewide pro-business advocacy group moving Kansas towards becoming the best state in America to live and work. The Chamber represents small, medium, and large employers all across Kansas. Please contact me directly if you have any questions regarding this testimony.

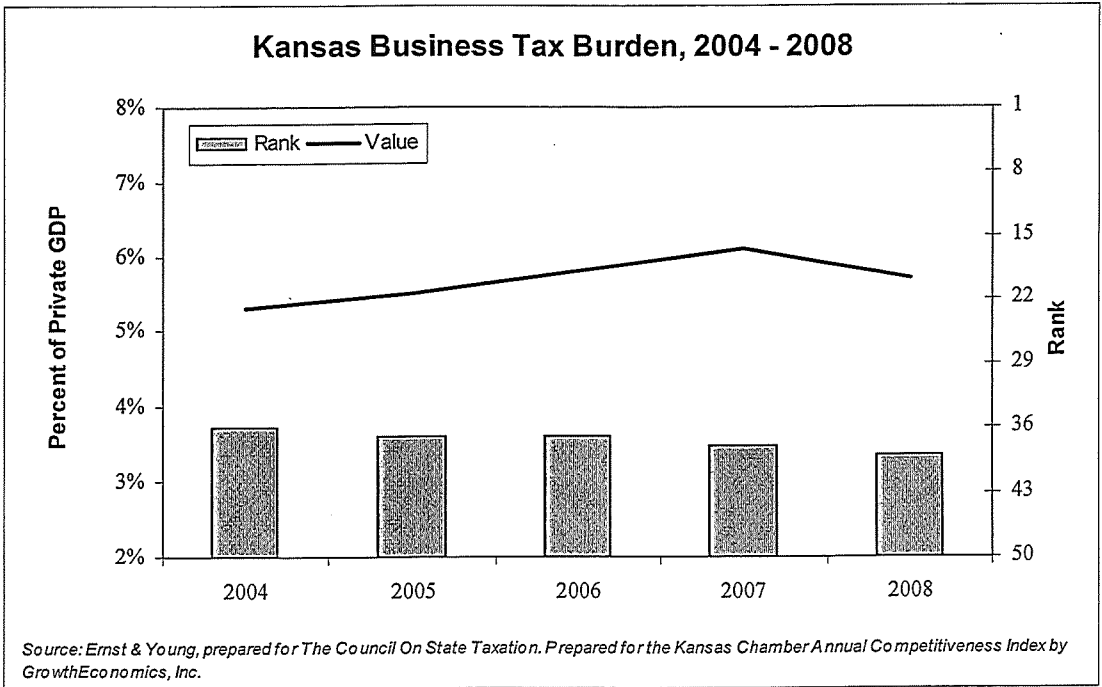


State Business Tax Climate Index, 2006 - 2010

State	FY 2010 State Business Tax Climate Index		FY 2009 State Business Tax Climate Index		Change from 2009 to 2010		FY 2008 State Business Tax Climate Index		FY 2007 State Business Tax Climate Index		FY 2006 State Business Tax Climate Index	
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
US	5.00		5.00				5.00		5.00		5.00	
Alabama	5.19	19	5.30	20	-0.11	-1	5.08	23	5.16	22	5.60	16
Alaska	7.38	3	7.32	4	0.06	1	7.13	3	6.99	4	7.29	3
Arizona	5.01	28	5.25	24	-0.23	-4	5.01	25	4.95	29	5.13	29
Arkansas	4.61	40	4.87	35	-0.25	-5	4.65	37	4.72	36	4.87	35
California	3.89	48	4.00	49	-0.11	1	3.93	49	3.92	48	4.64	42
→ Colorado	5.63	(13)	5.89	13	-0.26	0	5.89	10	5.90	11	5.70	13
Connecticut	4.72	38	4.81	37	-0.09	-1	4.60	38	4.69	39	4.66	41
Delaware	5.98	8	6.01	10	-0.02	2	6.09	9	6.11	8	6.10	9
Florida	6.62	5	6.92	5	-0.30	0	6.67	5	6.79	5	6.85	5
Georgia	5.01	29	5.16	27	-0.15	-2	4.95	28	5.18	21	5.52	20
Hawaii	5.05	24	5.27	22	-0.22	-2	5.27	18	5.34	16	5.28	24
Idaho	5.21	18	5.10	29	0.11	11	5.09	21	5.05	26	5.08	30
Illinois	5.01	30	5.26	23	-0.26	-7	5.04	24	4.92	31	5.22	26
Indiana	5.67	12	5.88	14	-0.20	2	5.65	13	5.72	12	5.86	12
Iowa	4.23	46	4.35	44	-0.12	-2	4.16	46	4.36	45	4.62	44
→ Kansas	4.93	(32)	5.07	31	-0.14	-1	4.87	31	4.77	35	4.99	33
Kentucky	5.18	20	4.95	34	0.23	14	4.98	27	4.96	28	4.75	38
Louisiana	4.74	35	4.98	33	-0.24	-2	4.75	34	4.79	33	5.05	32
Maine	4.83	34	4.69	40	0.14	6	4.72	35	4.72	37	4.64	43
Maryland	4.26	45	4.31	45	-0.06	0	4.14	47	5.08	24	5.23	25
Massachusetts	4.73	36	4.99	32	-0.26	-4	4.80	33	4.79	34	4.87	36
Michigan	5.35	17	5.30	21	0.05	4	5.32	17	5.14	23	5.20	28
Minnesota	4.44	43	4.61	41	-0.18	-2	4.40	42	4.39	43	4.71	39
Mississippi	5.16	21	5.32	19	-0.16	-2	5.09	22	5.21	19	5.57	19
→ Missouri	5.37	(16)	5.57	16	-0.20	0	5.35	16	5.37	15	5.68	14
Montana	6.32	6	6.27	6	0.05	0	6.35	6	6.42	6	6.16	8
→ Nebraska	4.88	(33)	4.55	42	0.32	9	4.55	40	4.55	41	4.59	45
Nevada	7.05	4	7.37	3	-0.31	-1	7.07	4	7.07	3	7.07	4
New Hampshire	6.25	7	6.21	7	0.05	0	6.29	7	6.32	7	6.45	6
New Jersey	3.60	50	3.90	50	-0.30	0	3.71	50	3.68	50	3.63	48
New Mexico	5.06	23	5.17	26	-0.11	3	4.93	29	5.05	25	5.30	23
New York	3.66	49	4.13	47	-0.47	-2	4.19	45	4.29	46	3.60	49
North Carolina	4.66	39	4.74	39	-0.08	0	4.52	41	4.52	42	4.70	40
North Dakota	5.04	25	5.08	30	-0.04	5	4.86	32	4.87	32	5.06	31
Ohio	4.04	47	4.12	48	-0.08	1	3.95	48	3.95	47	3.82	47
→ Oklahoma	4.97	(31)	5.40	18	-0.43	-13	5.18	19	5.20	20	5.41	21
Oregon	5.59	14	6.04	8	-0.44	-6	6.12	8	6.06	9	6.02	10
Pennsylvania	5.03	27	5.14	28	-0.10	1	4.92	30	4.95	30	5.31	22
Rhode Island	4.33	44	4.18	46	0.15	2	4.20	44	3.80	49	3.47	50
South Carolina	5.03	26	5.21	25	-0.17	-1	5.01	26	4.98	27	5.21	27
South Dakota	7.42	1	7.50	2	-0.08	1	7.21	2	7.18	2	7.56	2
Tennessee	5.10	22	5.42	17	-0.32	-5	5.16	20	5.27	17	5.58	18
Texas	5.70	11	6.02	9	-0.32	-2	5.79	11	5.99	10	6.41	7
Utah	5.80	10	5.94	11	-0.14	1	5.71	12	5.23	18	5.67	15
Vermont	4.56	41	4.52	43	0.03	2	4.34	43	4.37	44	4.57	46

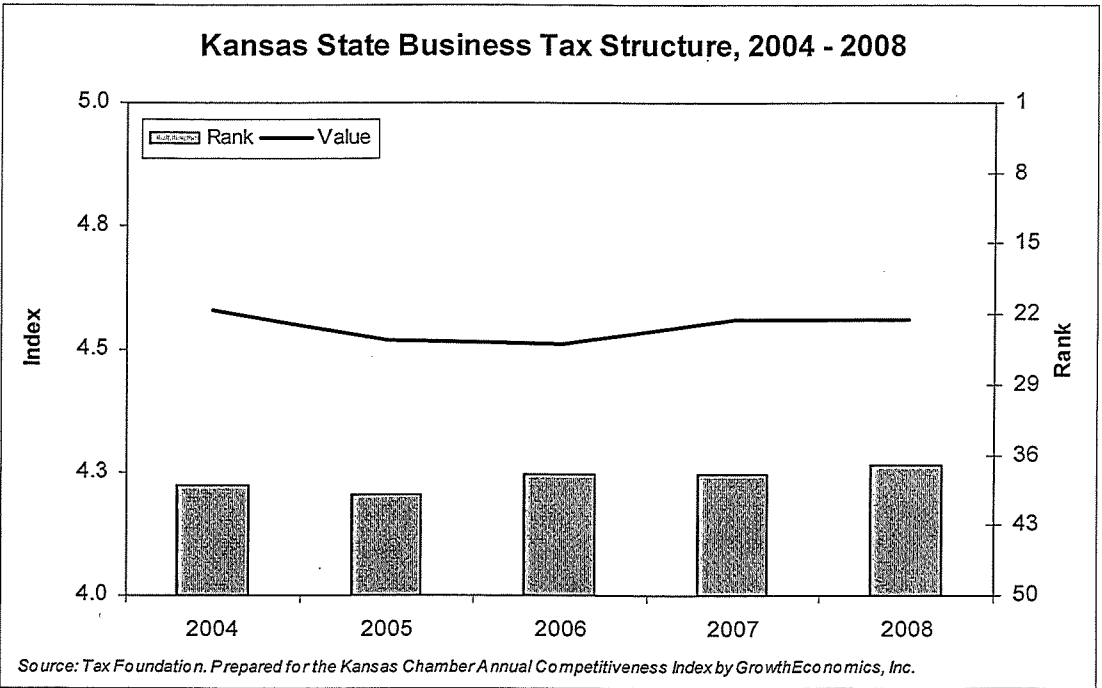
Source: Tax foundation.org

Business Tax Burden



For Business Tax Burden a low score is best -- ranked #1
 Kansas business tax burden (as percent of private GDP) increased between 2004 and 2007 but dropped in 2008. This improvement did not affect ranking, however, since overall other states equally controlled their business tax burden in 2008. Over the last five years, Kansas has experienced a slight decline in competitiveness from rank 33 to rank 39. It ranked last among its peer states in 2008.

State Business Tax Structure



The state business tax structure in Kansas has generally improved in ranking over the last five years from 39th to 37th, partially due to last-two-years improvement in its own score and additionally due to other states falling behind. Kansas is now second to last among its peer states.

Chart 6: Adjusted Estate Taxes

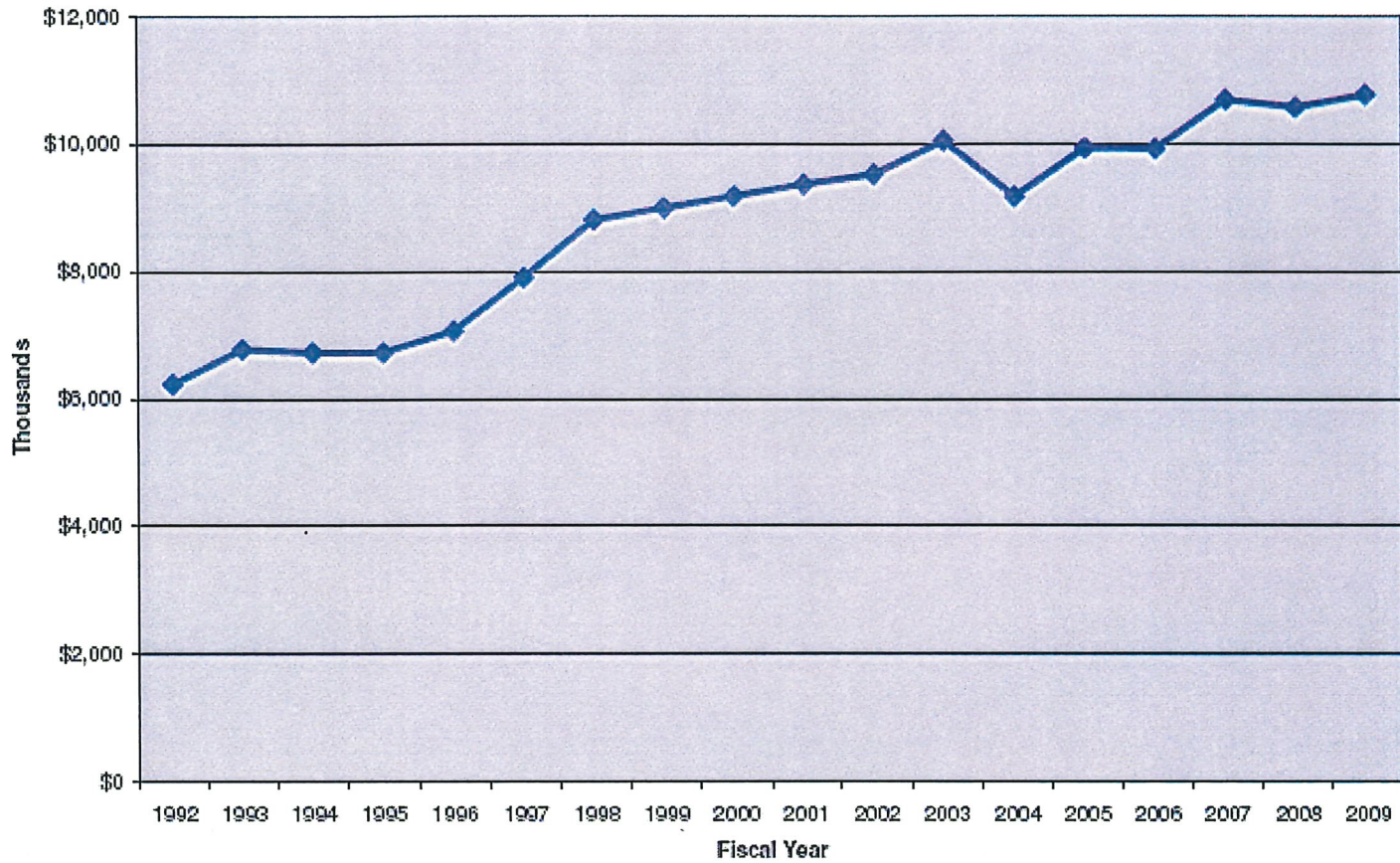


Chart 15: Adjusted Corporate Franchise Taxes

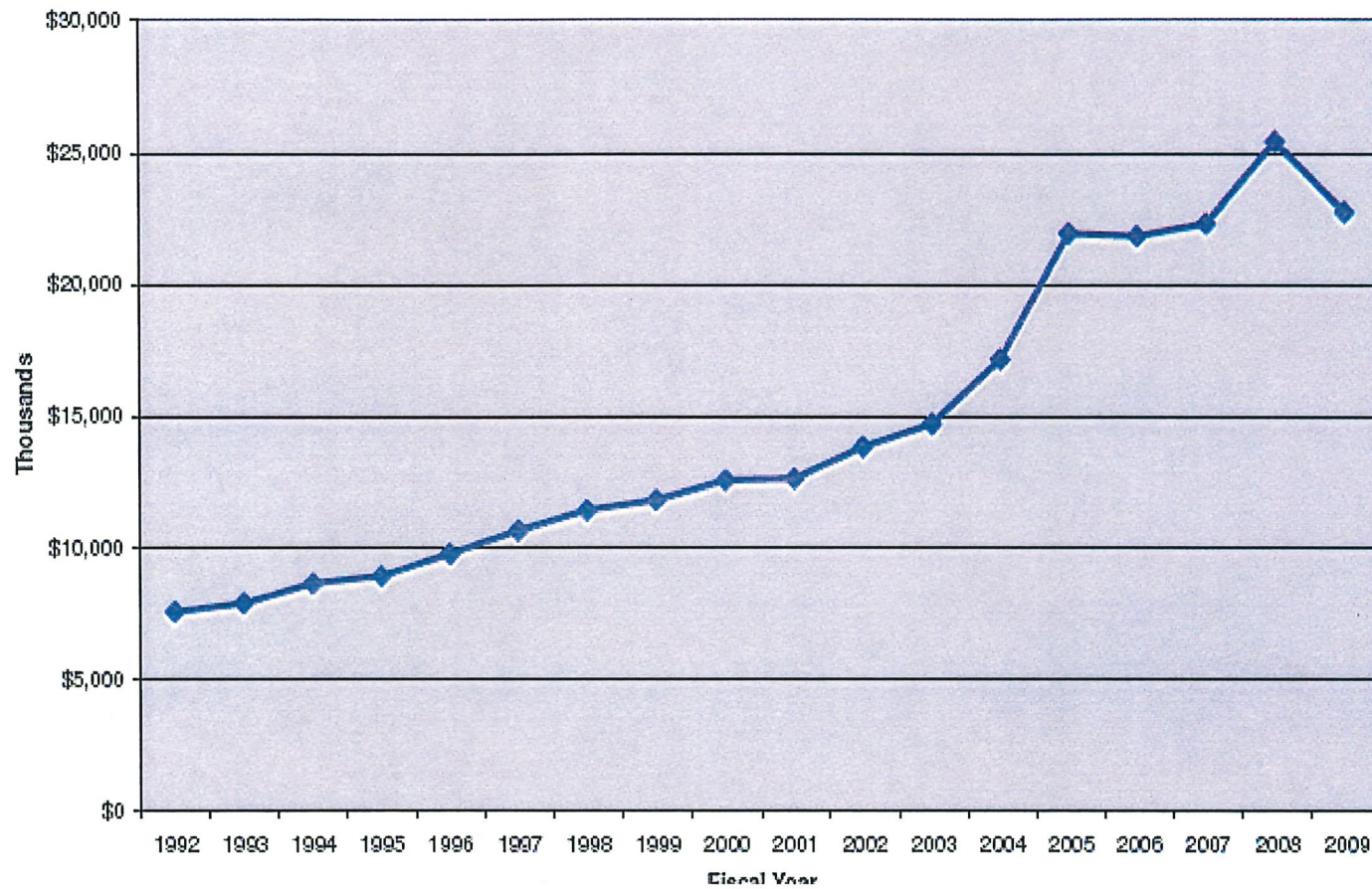
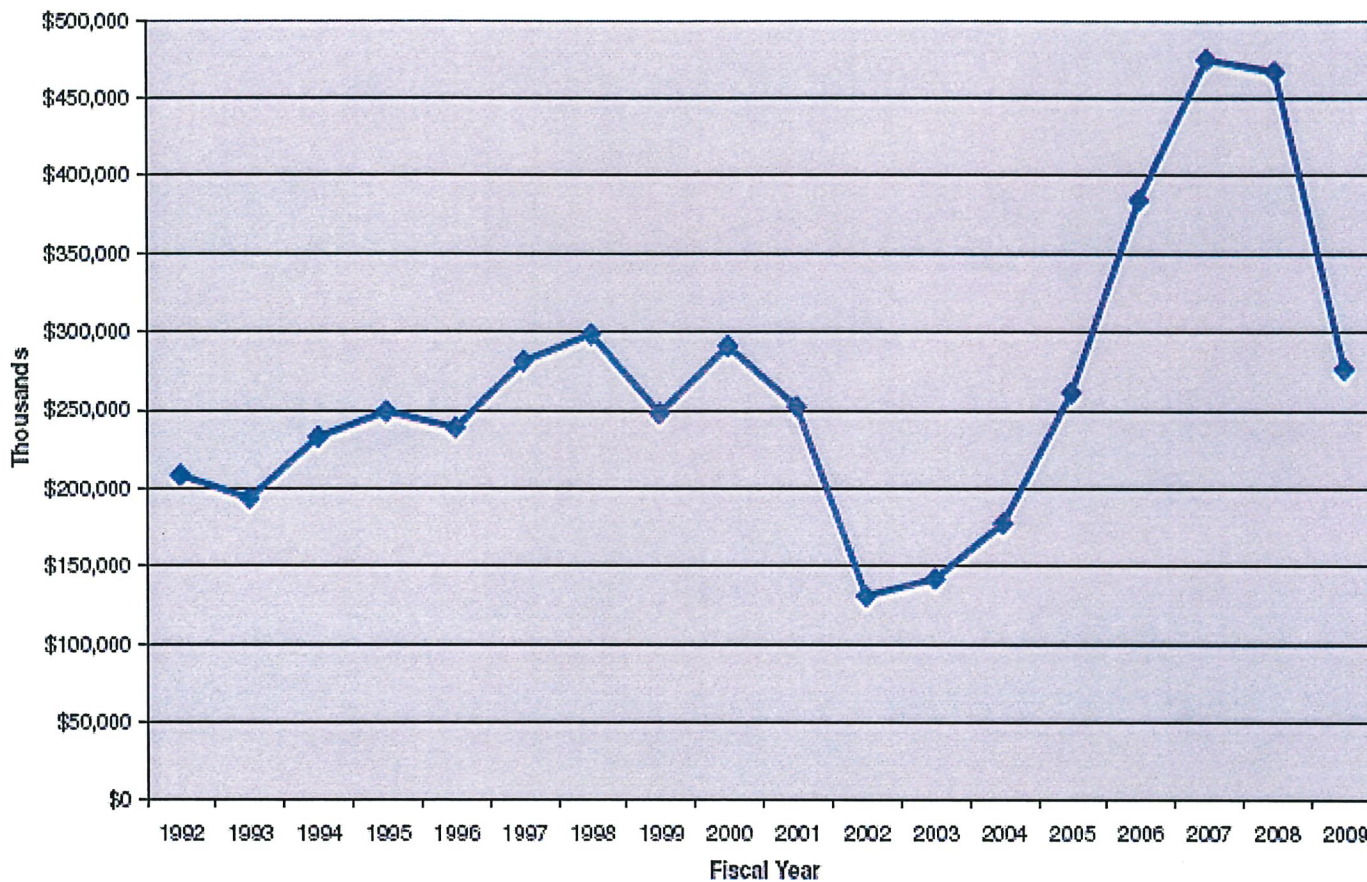
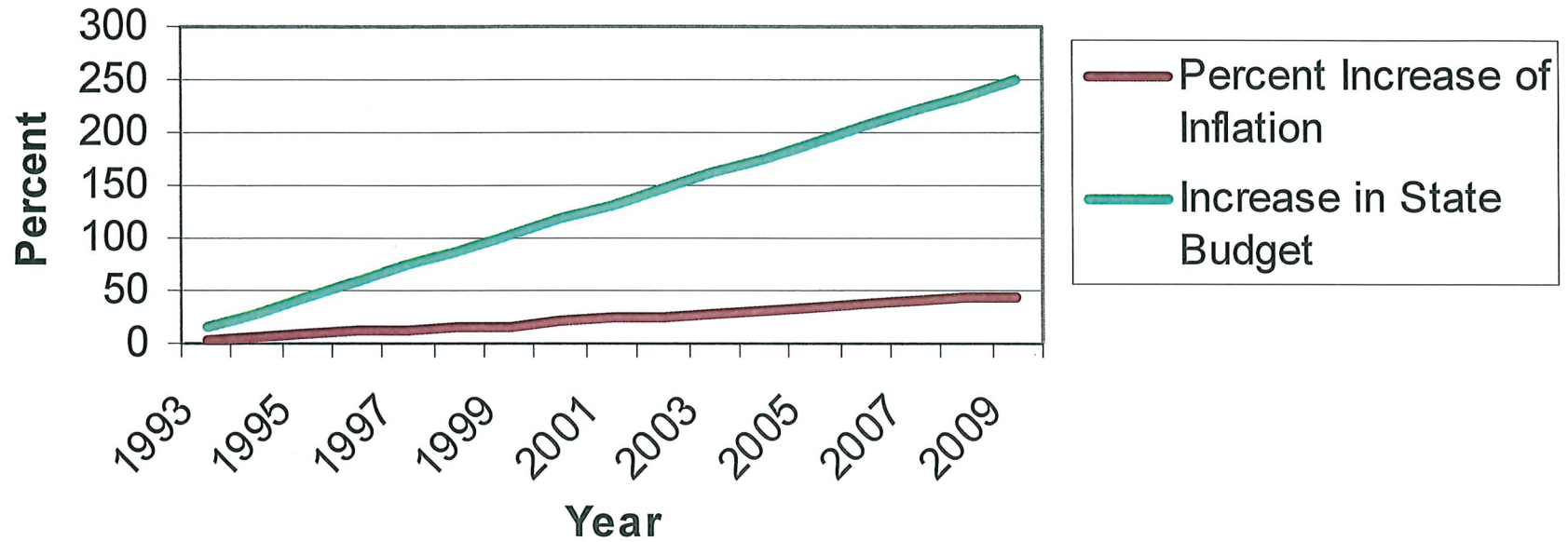


Chart 3: Adjusted Corporation Income Taxes



Percent Increase in State Budget & Inflation



Site Selection Survey

★ 2009 Area Development Magazine's Annual Corporate Survey – Top Business Factors

1. Highway accessibility
2. Labor costs (UI taxes included)
3. Occupancy & construction costs
4. Availability of skilled labor
5. State & local tax incentives
6. Availability of land
7. Energy availability & costs
8. Tax Exemptions
9. Proximity to major markets
10. Corporate tax rate
11. Expedited permitting
12. Availability of advanced IT
13. Right-to-Work state
14. Low union profile
15. Accessibility to major airport
16. Environmental regulations
17. Available buildings
18. Available long-term financing
19. Proximity to suppliers
20. Shipping costs

KANSAS
ASSOCIATION



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SCHOOL
BOARDS

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Testimony before the
House Taxation Committee
on
HB 2463 – Simplified State Tax Structure

by
Mark Tallman, Assistant Executive Director/Advocacy
Kansas Association of School Boards

January 28, 2010

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify today on **HB 2463**, which would establish a committee on a simplified state tax structure. KASB appears as a proponent of this bill. As many members of the committee will remember, KASB has repeatedly advocated a comprehensive study of state tax policy.

In December, the KASB Delegate Assembly adopted a resolution on tax policy, which noted the following concerns:

“The current budget crisis in Kansas results not only from the economic recession, but from 15 years of state tax cuts without a corresponding decrease in demands for public services, including an explosion of special exemptions, abatements, targeted tax cuts and diversions which have shifted the burden to other taxpayers, especially residential property. As a result, state general fund receipts are not keeping up with economic growth and personal income. These state policies have steadily narrowed the tax base, requiring higher rates to raise the same relative revenue, or forcing other units to raise taxes or fees.

“Kansas cannot support a competitive 21st Century education system with a 19th or 20th Century tax system. KASB believes: The state should immediately commission a comprehensive review of the Kansas tax system and develop recommendations for improving fairness, elasticity and competitiveness.”

While the charge of the proposed committee in **HB 2463** is not identical to this language, it is certainly close enough for our support.

Thank you for your consideration.

House Taxation
Date: 1-28-10
Attachment: #2