MINUTES

SPECIAL COMMITTEE ON ASSESSMENT AND TAXATION

November 12, 2010
Room 548-S—Statehouse

Members Present

Representative Richard Carlson, Chairperson
Senator Les Donovan, Vice-chairperson
Senator Terrie Huntington
Senator Dick Kelsey
Senator Janis Lee
Senator Bob Marshall
Representative Dolores Furtado
Representative Stan Frownfelter
Representative Jeff King
Representative Marvin Kleeb
Representative Julie Menghini
Representative Don Schroeder
Representative Sharon Schwartz

Staff Present

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

Conferees

Alan Conroy, Director, Kansas Legislative Research Department
Katrin Osterhaus, Legislative Post Auditor, Legislative Division of Post Audit

Others Present

See attached list.

Morning Session

The meeting was called to order by Chairperson Carlson at 10:05 a.m.

Chairperson Carlson welcomed the members of the Committee and others in attendance. Representative Furtado was appointed to the Committee by the House Minority Leader to replace Representative Lisa Benlon.

Chris Courtwright, Kansas Legislative Research Department (KLRD), briefed the Committee on the estimates for the State General Fund (SGF) for FY 2011 and FY 2012. The estimates were developed using a consensus process involving the Legislative Research Department, the Department of Revenue, and three consulting economists from state universities (Attachment 1).

Results from the consensus revenue estimates included:

- Economic Forecast for Kansas;
- Kansas Personal Income;
- Employment;
- Agriculture;
- Oil and Gas;
- Inflation Rate;
- Interest Rates;
- State General Fund Receipts Estimates; and
- Accuracy of Consensus Revenue Estimates.

Mr. Courtwright discussed unofficial summary reports for the SGF and State Highway Fund (SHF) projected receipts through FY 2020 (Attachment 2). He stood for questions.

Alan Conroy, Director, Kansas Legislative Research Department, presented a SGF profile based on the November 2010 consensus revenue estimates (Attachment 3), based on actual, approved, and estimates for FY 2010, FY 2011, and FY 2012 respectively.

Katrin Osterhaus, Legislative Division of Post Audit, presented a summary of the results from three tax audits conducted by the Post Audit Division last year (Attachment 4). She highlighted the following results:

- Kansas has increased the number and scope of available tax credits and tax exemptions over the last quarter century;

- A number of legitimate reasons exist for allowing entities or transactions not to be taxed;

- With regard to the state's forty-seven tax credits, the Post Audit Division found eight credits that could be repealed as they appear not to be achieving their purpose;

- With regard to the state's ninety-nine sales tax exemptions, the main finding was that similar types of taxpayers receive unequal treatment;

- With regard to the state's one hundred property tax exemptions, the biggest problem found is that Kansas lacks good information on how much the State is losing from those exemptions; and

- Recommendations to the Legislature for improving the Kansas tax preference structure.

The following Post Audit reports on Kansas tax credits and exemptions were discussed:

- Reviewing Tax Credits (10PA03.1 February 2010);

- Reviewing Sales Tax Exemptions (10PA03.2 February 2010); and

- Reviewing Property Tax Exemptions (10PA03.3 March 2010).

Ms. Osterhaus stood for questions.

Following a discussion pertaining to the states without an income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming), Chairperson Carlson asked Ms. Osterhaus if a comparative analysis of those seven states could be conducted by the Division of Post Audit. The results of such a study would be beneficial, should Kansas look at a broad sales tax policy in the future. She stated such an analysis could be accomplished.

Representative Frownfelter moved, seconded by Representative Kleeb, that the Committee direct Chairperson Carlson to write a letter to the Legislative Post Audit Committee, requesting a comparison study of the tax structure of those states without an income tax as compared to the State of Kansas. The motion carried.

Chairperson Carlson called a recess at 11:40 a.m.

Afternoon Session

Chairperson Carlson called the meeting back to order at 1:15 p.m.

Chris Courtwright presented a policy option checklist for state and local tax structure optimization (Attachment 5). The checklist included the fifty-four suggestions presented by conferees during the September 12, 2010, meeting of the Special Committee. These suggestions also were categorized by the topic areas of property, sales, and income taxes and other suggestions. Mr. Courtwright also distributed a handout from FairTaxKC.org that was presented at the September meeting (Attachment 6).

Senator Kelsey presented a recap of his proposal for a comprehensive tax equity plan presented in September. He concentrated on specific changes made as a result of a meeting with legislative staff and the Department of Revenue (Attachment 7). He asked that attention be given to item 6 of the proposal, which would apply the sales tax to services. He answered questions from the Committee.

In his closing summary, Chairperson Carlson stressed the complexity of tax codes and the ramifications of what happens when changes are made to such codes. He stated the original bill that passed in the House called for a two-year commission to study tax codes. Discussing significant changes to the business and individual tax policies will be stressful to the people of Kansas. Future meetings about significant changes should be held in an open and transparent manner. He recommended the policy suggestions presented to the Special Committee be forwarded to the Legislature and the Governor-Elect's transition team. He suggested beginning a dialogue that would discuss the long-term tax policies of the State, which would meet the goals of growing the private sector and creating capital investment in Kansas.

Representative Kleeb moved, seconded by Senator Huntington, to forward the policy suggestions received by the Special Committee to the Legislature and the Governor-Elect. The motion carried.

Representative Menghini moved, seconded by Senator Marshall, to approve the minutes of the September 16-17, 2010, meeting.

The meeting adjourned at 2:02 p.m.

Prepared by Marla Morris
Edited by Reed Holwegner

Approved by the Committee on:

December 10, 2010
(Date)

50989

Special Committee on Assessment

~~HOUSE TAXATION~~ COMMITTEE

and Taxation

DATE: 11-12-10

NAME	REPRESENTING
Barend Koops	Hein Law Firm
Kent Eckles	KS Chamber of Commerce
Sammy Peck	Topeka 912
Matt Casey	GBA
LARRY R BAER	LKM
Melissa Wangemann	KAC
Bob Weeks	Wichita Liberty
Mike Reecht	KIZ ~~Inc~~
Whitney Damron	Whitney B Damron, P.A.
Sandy Braden	Gaches, Braden + Assoc.
MARK DESETTI	KNEA
DICK CARTER	MANHATTAN CHAMBER
Michelle Butler	Capitol Strategies
John A. Donley	KLA
Natalie Bright	Bright: Carpenter
Dena Frost	VERIZON
BRAD HARRELSON	KFB
KEN DANIEL	TIBA
MIKE Taylor	UNIFIED GOVERNMENT

Special Committee on Assessment and Taxation

~~HOUSE TAXATION COMMITTEE~~

DATE: 11-12-10

NAME	REPRESENTING
Luke Bell	KS Assoc. of REALTORS
Sister Therese Bangert	Sisters of Charity of Leavenworth
Trudy Racine	KCSL
Mark Tallman	KASB
Bernie Koch	KEPC
Cynthia Wilson	JC League of Women Voters
[illegible]	KMHA
Rob Mealy	Kearney & Assoc.
Bob Vancrum	Greater KC Chamber
Dave Holthaus	KEC
Linda Fund	KACCT

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

68-West–Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ◆ FAX (785) 296-3824

kslegres@klrd.ks.gov http://www.kslegislature.org/klrd

November 9, 2010

To: Governor Mark Parkinson, Governor-Elect Sam Brownback and Legislative Budget Committee

From: Kansas Legislative Research Department
Kansas Division of the Budget

Re: State General Fund Receipts Estimates for FY 2011 and FY 2012

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on November 2, 2010, and slightly increased the estimate for FY 2011 and developed the first estimate for FY 2012.

For FY 2011, the estimate was increased by $17.9 million, or 0.3 percent, above the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session). Those legislative adjustments to the April estimates included the impact of the sales and use tax increase that was effective July 1. The revised estimate of $5.785 billion represents 11.4 percent growth above final FY 2010 receipts.

The initial estimate for FY 2012 is $5.811 billion, which is $25.4 million, or 0.4 percent, above the newly revised FY 2011 figure. Various factors influencing this growth rate in addition to the state of the economy include a net change of $210.0 million in transfers out of the SGF (in compliance with current statutory requirements for FY 2012); the fully annualized impact of the sales and use tax increase; and several pieces of legislation enacted in 2005-2007 that are continuing to reduce relative to prior law the amount of estate, corporation franchise, and severance tax receipts deposited into the SGF.

Table 1 compares the new FY 2011 and FY 2012 estimates with actual receipts from FY 2010. Table 2 shows the changes in the FY 2011 estimates.

Economic Forecast for Kansas

While the US economy has been growing since the third quarter of 2009, the rate of growth has slowed somewhat in 2010. Concerns of a double-dip recession nevertheless have waned over the summer, and assumptions are that modest growth will continue in the national and state economies in 2011 and 2012. Current forecasts call for nominal Gross Domestic Product to grow by 3.6 percent in 2011 and 5.8 percent in 2012 (coming off a 3.4 percent increase in 2010); and nominal Kansas Gross State Product to grow by 4.1 percent in 2011 and 5.8 percent in 2012 (after a 4.3 percent increase in 2010). Significant uncertainty remains relative to employment in several of the state's key sectors, including aviation manufacturing, though there is some evidence that rural areas of Kansas may be emerging from the economic downturn faster than the nation as a whole as a result of a weak dollar and strong demand for exports. The estimates contained in this memo are therefore premised on a continued recovery of the state's economy during the balance of FY 2011 and slightly accelerating growth throughout FY 2012.

Kansas Personal Income

Kansas Personal Income (KPI) in 2010 is expected to increase by 3.0 percent above the 2009 level (after having fallen by 1.4 percent in 2009). The forecast calls for KPI to grow by 3.4 percent in 2011 and 5.6 percent in 2012. Overall US Personal Income growth is not expected to differ significantly from the pattern in Kansas, with national estimates currently at 2.5 percent, 3.7 percent, and 5.9 percent for the same three years, respectively.

Employment

Data obtained from the Kansas Department of Labor verify that employment has stabilized relative to the fall of 2009. The most recent monthly data show that total Kansas non-farm employment from September 2009 to September 2010 increased by about 1,000 jobs. From its peak in April of 2008 to its low point in February of 2010, the state lost 75,800 jobs. Sectors with the heaviest job losses included professional and business services; financial activities; and leisure and hospitality. The current average estimates used by the Department indicate that the overall Kansas unemployment rate, which was 4.4 percent in CY 2008 and 6.7 percent in CY 2009, is expected again to be 6.7 percent in CY 2010 before declining to 6.5 percent in CY 2011. One positive sign relates to initial unemployment claims data, which throughout most of 2010 have been well below the same time periods studied for 2009. The national unemployment rate is expected to remain well above the Kansas rate, with the US rate now expected to be 9.5 percent in 2010 and 9.0 percent in 2011.

Agriculture

Although net farm income declined in 2009, the outlook for both 2010 and 2011 is considerably brighter as a result of higher commodity prices and relatively strong production. The All Farm Products Index of Prices received by Kansas farmers was 155 in September, up from 117 a year earlier. Wheat, corn, sorghum and soybean prices are significantly higher this fall than they were a year ago. Moreover, improved weather conditions in 2010 have contributed to a more efficient harvest. Livestock prices also remain higher thus far in 2010 than they were in 2009. High input prices, especially energy and fertilizer costs, and topsoil moisture deficiencies in certain areas of the state do remain as areas of concern for the agricultural sector.

Oil and Gas

Driven by foreign demand, the price of oil thus far in FY 2011 has remained higher than the price forecasted last April. The average price per taxable barrel of Kansas crude in FY 2011 is now estimated to be $73, higher than the previous forecast of $65 (and higher than the $66.49 final average price for FY 2010). The FY 2012 price is expected to be $75 per barrel. As always, significant political tensions in the Middle East and elsewhere provide a great deal of uncertainty about forecasting the price of this commodity. Gross oil production in Kansas, which had been declining steadily for more than a decade until FY 2000, reversed that trend about five years ago and began increasing slightly. The current forecast of 39.0 million barrels for FY 2011 compares favorably to the 33.5 million barrels produced in FY 2005. Approximately half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law.

The price of natural gas is expected to average $3.60 per mcf for FY 2011 before increasing to $3.95 per mcf for FY 2012, based on an industry source's analysis of futures markets. Only about 10 percent of natural gas production is exempt from the severance tax. Factors considered for these estimates included the relationship between crude oil and gas prices, the current relatively high storage levels for gas, the overall economic outlook, and the impact of enhanced production from shale formations elsewhere in the United States. Kansas natural gas production in FY 2010 of 348 million cubic feet represented a significant decrease from the modern era peak of 730 million cubic feet in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production is expected to continue to decrease to 320 million cubic feet for FY 2011; and 300 million cubic feet for FY 2012.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) is expected to increase by 1.6 percent in 2010 (after having fallen by 0.4 percent in 2009). Despite the continuation of aggressive monetary policy by the Federal Reserve, the latest forecast calls for inflation to remain at very moderate levels of 1.6 percent in 2011 and 2.4 percent in 2012.

Interest Rates

The Pooled Money Investment Board (PMIB) is authorized to make investments in US Treasury and Agency securities, highly rated commercial paper and corporate bonds, repurchase agreements and certificates of deposit in Kansas banks. Extremely low idle-fund balances in recent years have required the PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. In FY 2010, the state earned only 0.96 percent on its SGF portfolio (compared with a 4.26 percent rate in FY 2008 and 2.20 percent in FY 2009). The average rates of return forecasted for FY 2011 and FY 2012 are 0.53 percent and 0.24 percent, respectively, and reflect the expected continuation of historically low interest rates and idle-fund balances.

Economic Forecasts

	CY 10	CY 11*	CY 12*
KPI Growth	3.0%	3.4%	5.6%
Inflation (CPI-U)	1.6%	1.6%	2.4%
	FY 10	FY 11*	FY 12*
SGF Interest	0.96%	0.53%	0.24%
Oil and Gas			
Oil Price per bbl	$66.49	$73.00	$75.00
Gross Prod. (000)	39,310	39,000	39,000
Gas Price per mcf	$3.74	$3.60	$3.95
Gas Taxable Value	1,162,951	1,036,800	1,066,500

*Estimated

State General Fund Receipts Estimates

FY 2011. The revised estimate of SGF receipts for FY 2011 is $5.785 billion, an increase of $17.9 million above the previous estimate. Receipts through October from tax sources collected had been running $55.6 million above that forecast. The overall revised estimate is approximately $592.7 million, or 11.4 percent, above actual FY 2010 receipts.

Each individual SGF source was reevaluated independently and consideration was given to revised and updated economic forecasts, collection information from the Departments of Revenue and Insurance, and year-to-date receipts.

The estimate of total taxes was increased by $40.9 million, while the estimate of other revenue was decreased by $23.0 million. Total taxes in FY 2011 (which include the impact of the sales and use tax increase and other tax law changes) are now expected to be $609.3 million above FY 2010 collections, which were $422.4 million below the FY 2009 figure.

On the positive side, the combined forecast for sales and compensating use taxes was increased by $37.7 million. Receipts through the end of October indicated that the fiscal estimates associated with the rate increase may have been understated.

The corporation income tax estimate was increased by $5.0 million as a result of an improved outlook for corporate profits and the assumption that refunds will be slightly below the record levels of the last two fiscal years. Receipts from this source through October were $1.2 million above the previous estimate.

The estimate for individual income taxes remains unchanged from June. Final FY 2010 receipts from this source were $91.8 million below the final estimate for that year.

The overall severance tax estimate was reduced by $5.6 million. (The estimate for natural gas was decreased by $12.2 million, while the oil estimate was increased by $6.6 million.)

Other reductions of note based on new information included $23.0 million in non-tax sources ($15.4 million in net transfers; and $7.6 million in interest).

Details of the current year's revised estimate are reflected in Table 2.

FY 2012. SGF receipts are estimated to be $5.810 billion in FY 2012, a figure that is 0.4 percent above the new FY 2011 forecast. This result is heavily influenced by an increase of $210.0 million in net transfers from the SGF which will occur absent any change in current law. Total tax receipts are expected to grow by $240.6 million, or 4.3 percent, to reflect the modest but accelerating economic recovery. Other factors taken into account for FY 2012 include the continued phasing out of the estate and corporation franchise taxes.

Accuracy of Consensus Revenue Estimates

For 36 years, SGF revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies identified on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Tracy Turner from Kansas State University, and Nancy McCarthy Snyder from Wichita State University. Each of the agencies and individuals involved in the process prepared independent estimates and met on November 2, 2010, to discuss estimates and come to a consensus for each fiscal year.

STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted Original Estimate*	Adjusted Final Estimate**	Actual Receipts	Difference from Original Estimate* Amount	Difference from Original Estimate* Percent	Difference from Final Estimate** Amount	Difference from Final Estimate** Percent
1975	--	$614.9	$627.6	--	--	$12.7	2.1%
1976	$676.3	699.7	701.2	$24.9	3.7%	1.4	0.2
1977	760.2	760.7	776.5	16.3	2.1	15.8	2.1
1978	830.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)
1979	945.2	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)
1980	1,019.3	1,095.9	1,097.8	78.5	7.7	1.9	0.2
1981	1,197.1	1,226.4	1,226.5	29.4	2.5	0.1	0.0
1982	1,351.3	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)
1983	1,599.2	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.2)
1984	1,596.7	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5
1985	1,697.7	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)
1986	1,731.2	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)
1987	1,903.1	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8
1988	1,960.0	2,031.5	2,113.1	153.1	7.8	81.6	4.0
1989	2,007.8	2,206.9	2,228.3	220.5	11.0	21.4	1.0
1990	2,241.2	2,283.3	2,300.5	59.3	2.6	17.2	0.8
1991	2,338.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9
1992	2,478.7	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5
1993	2,913.4	2,929.6	2,932.0	18.6	0.6	2.4	0.1
1994	3,040.1	3,126.8	3,175.7	135.6	4.5	48.9	1.6
1995	3,174.4	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)
1996	3,428.0	3,409.2	3,448.3	20.3	0.6	39.0	1.1
1997	3,524.8	3,642.4	3,683.8	159.0	4.5	41.4	1.1
1998	3,714.4	3,971.0	4,023.7	309.3	8.3	52.7	1.3
1999	3,844.7	4,051.9	3,978.4	133.7	3.5	(73.4)	(1.8)
2000	4,204.1	4,161.0	4,203.1	(1.0)	0.0	42.1	1.0
2001	4,420.7	4,408.7	4,415.0	(5.7)	(0.1)	6.4	0.1
2002	4,674.5	4,320.6	4,108.9	(565.6)	(12.1)	(211.7)	(4.9)
2003	4,641.0	4,235.6	4,245.6	(395.4)	(9.3)	9.9	0.2
2004	4,605.5	4,450.5	4,518.7	(86.8)	(1.9)	68.2	1.5
2005	4,490.5	4,793.8	4,841.3	350.8	7.8	47.5	1.0
2006	4,834.0	5,308.7	5,394.4	560.4	11.6	85.7	1.6
2007	5,144.0	5,721.3	5,809.0	665.0	12.9	87.8	1.5
2008	5,700.4	5.736.3	5,694.9	(5.5)	-0.1	(41.4)	(0.7)
2009	6,185.7	5,709.7	5,589.0	(596.7)	(9.6)	(120.7)	(2.1)
2010	5,974.2	5,291.0	5,192.4	(781.8)	(13.1)	(98.6)	(1.9)

* The adjusted original estimate is the estimate made in November or December prior to the start of the next fiscal year in July and adjusted to account for legislation enacted, if any, which affected receipts to the SGF.

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** The final estimate made in March, April, or June is the adjusted original estimate plus or minus changes subsequently made by the Consensus Estimating Group. It also includes the estimated impact of legislation on receipts.

The table (above) presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. First, the adjusted original estimate is compared to actual collections and then the final estimate is compared to actual receipts.

Concluding Comments

Consensus revenue estimates are based on current federal and state laws and their current interpretation. These estimates will be further adjusted in mid-April prior to the conclusion of the 2011 Legislative Session.

Table 1
State General Fund Receipts
(Dollars in Thousands)

	FY 2010 (Actual)		Consensus Estimate November 2, 2010 FY 2011 (Revised)		FY 2012	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	$ 24,993	(14.6) %	$ 26,000	4.0 %	$ 27,000	3.8 %
Income Taxes:						
Individual	$ 2,418,208	(9.8) %	$ 2,577,175	6.6 %	$ 2,705,000	5.0 %
Corporation	224,940	(6.4)	260,000	15.6	275,000	5.8
Financial Inst.	16,515	(36.9)	20,770	25.8	21,000	1.1
Total	$ 2,659,663	(9.8) %	$ 2,857,945	7.5 %	$ 3,001,000	5.0 %
Estate Tax	$ 8,396	(62.7) %	$ 3,000	(64.3) %	$ --	(100.0) %
Excise Taxes:						
Retail Sales	$ 1,652,037	(2.2) %	$ 2,000,000	21.1 %	$ 2,090,000	4.5 %
Compensating Use	205,540	(12.5)	280,000	36.2	295,000	5.4
Cigarette	99,829	(6.9)	97,000	(2.8)	97,000	--
Tobacco Products	6,352	10.9	6,600	3.9	6,800	3.0
Cereal Malt Bev.	1,989	(4.8)	1,900	(4.5)	1,900	--
Liquor Gallonage	17,953	(1.4)	18,800	4.7	19,200	2.1
Liquor Enforcement	54,827	1.9	58,000	5.8	59,000	1.7
Liquor Drink	8,930	(2.3)	9,300	4.1	9,500	2.2
Corp. Franchise	41,462	(0.6)	18,000	(56.6)	8,000	(55.6)
Severance	81,870	(34.1)	92,800	13.4	94,300	1.6
Gas	39,988	(45.8)	38,700	(3.2)	39,400	1.8
Oil	41,882	(17.0)	54,100	29.2	54,900	1.5
Total	$ 2,170,788	(5.1) %	$ 2,582,400	19.0 %	$ 2,680,700	3.8 %
Other Taxes:						
Insurance Prem.	120,375	0.7 %	$ 124,000	3.0 %	$ 125,000	0.8 %
Miscellaneous	1,655	(7.7)	1,800	8.8	2,000	11.1
Total	$ 122,030	0.5 %	$ 125,800	3.1 %	$ 127,000	1.0 %
Total Taxes	$ 4,985,870	(7.8) %	$ 5,595,145	12.2 %	$ 5,835,700	4.3 %
Other Revenues:						
Interest	$ 24,629	(61.6) %	$ 17,400	(29.4) %	$ 11,800	(32.2) %
Net Transfers	128,586	277.6	116,300	(9.6)	(93,700)	(180.6)
Agency Earnings	53,365	(34.0)	56,320	5.5	56,800	0.9
Total	$ 206,579	15.3 %	$ 190,020	(8.0) %	$ (25,100)	(113.2) %
Total Receipts	$ 5,192,449	(7.1) %	$ 5,785,165	11.4 %	$ 5,810,600	0.4 %

Table 2
State General Fund Receipts
FY 2011 Revised
Comparison of November 2010 Estimate to June 2010 Estimate
(Dollars in Thousands)

	FY 2011 CRE Est. as Adj. for Legis.	FY 2011 CRE Estimate	Difference Amount	Difference Pct. Chg.
Property Tax:				
Motor Carrier	$ 24,000	$ 26,000	$ 2,000	8.3 %
Income Taxes:				
Individual	$ 2,577,175	$ 2,577,175	$ --	-- %
Corporation	255,000	260,000	5,000	2.0
Financial Inst.	20,770	20,770	--	--
Total	$ 2,852,945	$ 2,857,945	$ 5,000	0.2 %
Estate Tax	$ 5,000	$ 3,000	$ (2,000)	(40.0) %
Excise Taxes:				
Retail Sales	$ 1,971,211	$ 2,000,000	$ 28,789	1.5 %
Compensating Use	271,068	280,000	8,932	3.3
Cigarette	95,000	97,000	2,000	2.1
Tobacco Product	6,600	6,600	--	--
Cereal Malt Beverage	2,100	1,900	(200)	(9.5)
Liquor Gallonage	18,800	18,800	--	--
Liquor Enforcement	58,000	58,000	--	--
Liquor Drink	9,300	9,300	--	--
Corporate Franchise	17,000	18,000	1,000	5.9
Severance	98,400	92,800	(5,600)	(5.7)
Gas	50,900	38,700	(12,200)	(24.0)
Oil	47,500	54,100	6,600	13.9
Total	$ 2,547,479	$ 2,582,400	$ 34,921	1.4 %
Other Taxes:				
Insurance Premium	$ 123,000	$ 124,000	$ 1,000	0.8 %
Miscellaneous	1,800	1,800	--	--
Total	$ 124,800	$ 125,800	$ 1,000	0.8 %
Total Taxes	$ 5,554,224	$ 5,595,145	$ 40,921	0.7 %
Other Revenues:				
Interest	$ 25,000	$ 17,400	$ (7,600)	(30.4) %
Net Transfers	131,694	116,300	(15,394)	(11.7)
Agency Earnings	56,320	56,320	--	--
Total Other Revenue	$ 213,014	$ 190,020	$ (22,994)	(10.8) %
Total Receipts	$ 5,767,238	$ 5,785,165	$ 17,927	0.3 %

Special Committee on Assessment and Taxati
November 12, 2010
Attachment #2

SGF Sales and Use Tax Receipts (Nov 2 Consensus for FY 11,12 and 3.5% Growth Starting in FY 13)

	sales	use	both	growth	growth
FY 2011	$2,000,000	$280,000	$2,280,000		
FY 2012	$2,090,000	$295,000	$2,385,000	4.61%	$105,000
FY 2013	$2,163,808	$305,418	$2,469,226	3.53%	$84,226
FY 2014	$1,893,621	$267,281	$2,160,903	-12.49%	-$308,323
FY 2015	$1,927,350	$272,042	$2,199,392	1.78%	$38,490
FY 2016	$1,994,807	$281,564	$2,276,371	3.50%	$76,979
FY 2017	$2,064,626	$291,418	$2,356,044	3.50%	$79,673
FY 2018	$2,136,887	$301,618	$2,438,506	3.50%	$82,462
FY 2019	$2,211,678	$312,175	$2,523,853	3.50%	$85,348
FY 2020	$2,289,087	$323,101	$2,612,188	3.50%	$88,335

SHF Sales and Use Tax Receipts (Nov 2 Consensus for FY 11,12 and 3.5% Growth Starting in FY 13)

	sales	use	both	growth	growth
FY 2011	$260,265	$36,379	$296,644		
FY 2012	$265,195	$37,432	$302,627	2.02%	$5,983
FY 2013	$273,819	$38,649	$312,468	3.25%	$9,841
FY 2014	$409,065	$57,739	$466,804	49.39%	$154,337
FY 2015	$435,207	$61,429	$496,635	6.39%	$29,831
FY 2016	$450,439	$63,579	$514,017	3.50%	$17,382
FY 2017	$466,204	$65,804	$532,008	3.50%	$17,991
FY 2018	$482,521	$68,107	$550,628	3.50%	$18,620
FY 2019	$499,410	$70,491	$569,900	3.50%	$19,272
FY 2020	$516,889	$72,958	$589,847	3.50%	$19,947

Total Sales and Use Tax Receipts

	sales	use	both	growth	growth
FY 2011	$2,260,265	$316,379	$2,576,644		
FY 2012	$2,355,195	$332,432	$2,687,627	4.31%	$110,983
FY 2013	$2,437,627	$344,067	$2,781,694	3.50%	$94,067
FY 2014	$2,302,687	$325,020	$2,627,707	-5.54%	-$153,987
FY 2015	$2,362,557	$333,471	$2,696,027	2.60%	$68,320
FY 2016	$2,445,246	$345,142	$2,790,388	3.50%	$94,361
FY 2017	$2,530,830	$357,222	$2,888,052	3.50%	$97,664
FY 2018	$2,619,409	$369,725	$2,989,134	3.50%	$101,082
FY 2019	$2,711,088	$382,666	$3,093,754	3.50%	$104,620
FY 2020	$2,805,976	$396,059	$3,202,035	3.50%	$108,281

Special Committee on Assessment and Taxation
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Attachment #3

STATUS OF THE STATE GENERAL FUND
FY 2010-FY 2012 Based on November 2010 Consensus Revenue Estimates
(In Millions)

	Actual FY 2010	Approved FY 2011	Estimated FY 2012
Beginning Balance	$ 51.2	$ 5.6	$ (59.9)
Receipts (November 2010 Consensus Revenue Estimate)	5,192.4	5,785.2	5,810.6 *
Total Available	$ 5,243.6	$ 5,790.8	$ 5,750.7
Expenditures:			
Actual, Approved by the 2010 Legislature, or Estimated	$ 5,238.0	$ 5,656.6	$ 5,633.2
Shifts from FY 2010	-	138.6	-
Social Services Caseload Adjustments	-	6.3	73.2
Federal Economic Stimulus (ARRA) Funding Adjustments	-	(32.0)	491.7 *
School Finance Adjustments	-	81.2	(3.5)
KPERS Employer Contribution Increase	-	-	40.0
State Employee Undermarket Pay Increase	-	-	8.5
Total Expenditures	$ 5,238.0	$ 5,850.7	$ 6,243.1
Ending Balance	$ 5.6	$ (59.9)	$ (492.4)
Ending Balance as a Percentage of Expenditures	0.1%	-1.0%	-7.9%
Receipts in Excess of Expenditures	$ (45.6)	$ (65.5)	$ (432.5)

Notes:

1. *FY 2010 actual expenditures exclude $30.0 million in contingent encumbrances. That amount has been added to FY 2011 approved expenditures.*
2. *Social services caseload adjustments exclude replacement for federal economic stimulus (ARRA) funding which is reflected in a separate line.*
3. *School finance adjustments in FY 2011 reflect replacement of $85.9 million in State General Fund expenditures with federal education jobs (Edujobs) funds. The remaining $6.5 million in Edujobs funding is distributed directly to local school districts.*
4. *School finance adjustments do not include $22.6 million in capital outlay aid in FY 2011.*
5. *Total expenditures do not include $20.5 million in FY 2011 and $23.8 million in FY 2012 to fund special education at 92.0 percent of excess costs.*
6. *School finance is funded at $4,012 per pupil in both FY 2011 and FY 2012. Fully funding school finance under current law ($4,492 per pupil) in FY 2012 would require an additional $327.0 million, which includes $26.4 million in capital outlay state aid.*

LEGISLATIVE DIVISION OF POST AUDIT - AUDIT SUMMARY

Good morning, Mr. Chair, and members of the Committee! I'm here today to present the three tax audits we conducted last year. I brought along extra copies if you need them. With permission of the Chair, I will summarize each audit, which will take about 10 minutes each.

Realizing the task you have before you, I also reviewed these three tax audits from a bird's eye view, and here are the highlights to take away:

- **Kansas has increased the number and scope of available tax credits and tax exemptions over the last quarter century**. These policy decisions have reduced the state's tax base significantly, which in turn reduces collectable tax revenues. Various Legislative or Review Committees have studied the tax system in recent years, and again this year, with hopes to improve and simplify it.

- **A number of legitimate reasons exist for allowing entities or transactions not to be taxed.** Generally speaking, the fairest tax system is one that can be uniformly applied, to the broadest base of people, goods and services. Good tax policy states that exemptions from taxation should be the <u>exception</u> not the rule. In addition, when granting exceptions, policymakers should consider whether the benefit to the public is worth the lost revenue, or worth asking other taxpayers to pay more to make up the difference.

- **With regard to the State's <u>47 tax credits</u>, we found eight credits that could be repealed as they appear not to be achieving their purpose**. Seven additional credits appear to be structured more generously compared to other State's credits. Policy makers should revaluate another 12 tax credits to determine whether they provide a good balance between funding needs and public policy goals.

- **With regard to the State's <u>99 sales tax exemptions</u>, our main finding was that similar types of taxpayers receive unequal treatment**. This is something that contradicts good tax policy

- **With regard to the State's <u>100 property tax exemptions</u>, the biggest problem we found is that Kansas lacks good information on how much the State is losing from those exemptions**. We also found a handful of exemptions that provide a larger exemption than constitutionally required or that could result in unequal treatment of taxpayers.

- **To improve Kansas tax preference structure, we recommended for the Legislature to:**
  - evaluate and address the findings in these three reports
  - develop a broad tax policy to guide future decisions on credits and exemptions,
  - strengthen the system for evaluating tax credits and exemptions in the future.

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

68-West–Statehouse, 300 SW 10th Ave.
Topeka, Kansas 66612-1504
(785) 296-3181 ◆ FAX (785) 296-3824

kslegres@klrd.ks.gov http://www.kslegislature.org/klrd

November 12, 2010

To: Special Committee on Assessment and Taxation

From: Chris W. Courtwright, Principal Economist

Re: Policy Option Checklist -- State and Local Tax Structure Optimization

The following suggestions were made by conferees at the September meeting:

(1) Enact a 3-year moratorium on new property tax exemptions and mandate that any new exemptions ultimately enacted contain a 3-year sunset so as to ensure a review (KACIR);
(2) Direct Post Audit to reexamine all property tax exemptions granted since 1995 and report to standing tax committees as to whether they are accomplishing what was intended (KACIR);
(3) Tax committees should specifically in 2011 review and consider changing or repealing exemptions for pipelines (KSA 79-227), refineries (KSA 79-226), low-production oil wells (KSA 79-201t), and wind farms (KSA 79-201 eleventh) (KACIR);
(4) Enact a 3-year moratorium on new sales tax exemptions and mandate that any new exemptions ultimately enacted contain a 3-year sunset so as to ensure a review (KACIR);
(5) Enact a mandatory 5-year sunset for those exemptions sought to be repealed in 2010 legislation (KACIR);
(6) Broaden the sales tax base to include certain household or personal services, including tanning beds, beautician, and barber services (KACIR);
(7) Have tax committees develop legislation providing a comprehensive policy for the tax treatment of fund-raising events of not-for-profit entities (KACIR);
(8) Enact a 3-year moratorium on new income tax credits and mandate that any new credits ultimately enacted contain a 3-year sunset so as to ensure a review (KACIR);
(9) Enact a moratorium on new incentive programs authorizing the utilization of employee withholding taxes as incentives to development (KACIR);
(10) Prohibit tax credits from being transferrable (KACIR);
(11) Repeal seldom used (under $100k) tax credits (KACIR);
(12) Repeal most sales tax exemptions, return rate to 5.3 percent, extend the tax to many previously untaxed services, exempt groceries, repeal food sales tax rebate program, repeal corporation income tax, provide over $580 million in individual income tax relief (Senator Kelsey);
(13) Identify various inefficiencies and redundancies in current tax structure, make recommendations to streamline the system, develop strategy to broaden and flatten the tax base (Representative Siegfreid);
(14) Restore funding to demand transfers (LAVTRF and CCRSF) to help reduce property taxes (KAC);
(15) Restore funding to slider payments to help reduce property taxes (KAC);

(16) Authorize local option income taxes (as alternative to property and sales tax) (LKM);
(17) Authorize local option earnings taxes (LKM);
(18) Authorize local option motor fuels taxes (LKM);
(19) Authorize local option excise taxes (LKM);
(20) Place gaming revenue monies that are to be used for property tax relief in LAVTRF (LKM);
(21) Recommend that the state tax system be maintained at a level to support constitutional requirements regarding "suitable finance" for K-12 schools (KASB);
(22) Address concerns about tax policy and education funding by studying why tax policies have shifted burdens and raised rates; and renew efforts to reduce property tax reliance (KASB);
(23) Adjust school finance formula by increasing the state base in lieu of relying more heavily on local option budgets and weightings (KASB);
(24) Broaden the tax base and lower rates (KASB);
(25) Acknowledge that certain tax increases represent a significant for small businesses because of cash-flow issues (NFIB);
(26) Make the tax code simpler so as to reduce compliance costs for small business (NFIB);
(27) Maintain low individual income tax rates (NFIB);
(28) Enact expensing (see 34 below) to provide small business with immediate capital (NFIB);
(29) Enact a "standard home-office deduction" for home-based businesses (NFIB);
(30) Repeal local option intangibles tax (NTU);
(31) Implement property tax caps (NTU);
(32) Index income tax brackets to inflation (NTU);
(33) Repeal sales tax exemption for YMCA/YWCA membership dues (private health clubs);
(34) Enact expensing (100 percent accelerated depreciation for all capital investments) using 2008 HB 2751 as the starting point (Art Hall);
(35) Allow all new business firms to retain 100 percent of employee withholding taxes for 12 months (Art Hall);
(36) Provide capital gains exemption for sale of Kansas-based business assets and Kansas-based business enterprises (Art Hall);
(37) Help fund recommendations 34-36 by eliminating prospectively (with grandfather clauses) the following programs and tax credits: Kansas Industrial Training, Kansas Industrial Retraining, IMPACT, Kansas Economic Opportunity Initiative Fund, enterprise zones, STAR bonds, HPIP, business and job development credits, biomass-to-energy credits, electric cogeneration facility credits, environmental compliance credits for oil refineries, alternative fuel credits, integrated coal gasification power plant credits, nitrogen fertilizer plant credits, petroleum refinery credits, qualifying pipeline credits, storage and blending equipment credits, swine facility improvement credits, research and development credits, angel investor credits (Art Hall);
(38) Enact legislation naming the Secretary of Commerce as Chair of KTEC, Bioscience Authority, Network Kansas, and Advisory Board of Small Business Development Center; and make a non-voting member of Kansas, Inc. board (Art Hall);
(39) Phase out the individual income tax over a period of years (KPI);
(40) Phase out the corporation income tax over a period of years (KPI);
(41) Submit to voters a constitutional amendment limiting annual property tax increases (KPI);
(42) Statutorily limit property tax increases without taxpayer approval (KPI);
(43) Reconsider the change to destination sourcing enacted in 2003 (KPI);
(44) Submit a constitutional amendment requiring a supermajority vote to impose or increase taxes or fees (ALEC);
(45) Maintain sales tax rate at 6.3 percent in 2013 and use additional revenue to phase out the corporation income tax (Kansas Chamber);

(46) Consider legislation that would relax combined "unitary" reporting and apportionment of income of multistate and multinational corporations (Hill's Pet Nutrition);
(47) Recommend against expanding the sales tax base to include additional business inputs (COST);
(48) Reestablish an "even-handed" statute of limitations for sales taxes (COST);
(49) Allow interest to accrue from date of tax overpayments (COST);
(50) Define "final determination" for purposes of reporting federal tax changes to Kansas (COST);
(51) Limit state tax adjustments following statute-of-limitation expiration to only specific items changed on state returns as a result of federal changes (COST);
(52) Implement the "ONE TAX" plan that would repeal income taxes, phase out most sales tax exemptions, retain exemptions for business-to-business transactions, pay retailers a collection fee, repeal various taxes for boat registration, new tires, motor vehicle rental, dry cleaning, clean water, private car companies, music and dramatic composition, bingo, transient guest, and combative arts. "Lock" the basic provisions into the state constitution to make it more difficult to return to a capital-based tax system (FairTaxKC);
(53) Enact a "Fair Tax" proposal such as that which is embodied in Missouri Senate Joint Resolution No. 29 (LCC charge);
(54) Change the individual income tax from a three-bracket system to a uniform "flat" rate (LCC charge)

Property Tax Suggestions

(1) Enact a 3-year moratorium on new property tax exemptions and mandate that any new exemptions ultimately enacted contain a 3-year sunset so as to ensure a review (KACIR);
(2) Direct Post Audit to reexamine all property tax exemptions granted since 1995 and report to standing tax committees as to whether they are accomplishing what was intended (KACIR);
(3) Tax committees should specifically in 2011 review and consider changing or repealing exemptions for pipelines (KSA 79-227), refineries (KSA 79-226), low-production oil wells (KSA 79-201t), and wind farms (KSA 79-201 eleventh) (KACIR);
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(8) Authorize local option motor fuels taxes (LKM);
(9) Authorize local option excise taxes (LKM);
(10) Place gaming revenue monies that are to be used for property tax relief in LAVTRF (LKM);
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(12) Submit to voters a constitutional amendment limiting annual property tax increases (KPI);
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Sales Tax Suggestions

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Income Tax Suggestions

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(23) Enact a moratorium on new incentive programs authorizing the utilization of employee withholding taxes as incentives to development (KACIR);
(24) Prohibit tax credits from being transferrable (KACIR);
(25) Repeal seldom used (under $100k) tax credits (KACIR);
(26) Maintain low individual income tax rates (NFIB);
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(28) Enact a "standard home-office deduction" for home-based businesses (NFIB);

(29) Index income tax brackets to inflation (NTU);
(30) Enact expensing (100 percent accelerated depreciation for all capital investments) using 2008 HB 2751 as the starting point (Art Hall);
(31) Allow all new business firms to retain 100 percent of employee withholding taxes for 12 months (Art Hall);
(32) Provide capital gains exemption for sale of Kansas-based business assets and Kansas-based business enterprises (Art Hall);
(33) Help fund recommendations 30-32 by eliminating prospectively (with grandfather clauses) the following programs and tax credits: Kansas Industrial Training, Kansas Industrial Retraining, IMPACT, Kansas Economic Opportunity Initiative Fund, enterprise zones, STAR bonds, HPIP, business and job development credits, biomass-to-energy credits, electric cogeneration facility credits, environmental compliance credits for oil refineries, alternative fuel credits, integrated coal gasification power plant credits, nitrogen fertilizer plant credits, petroleum refinery credits, qualifying pipeline credits, storage and blending equipment credits, swine facility improvement credits, research and development credits, angel investor credits (Art Hall);
(34) Phase out the individual income tax over a period of years (KPI);
(35) Phase out the corporation income tax over a period of years (KPI);
(36) Consider legislation that would relax combined "unitary" reporting and apportionment of income of multistate and multinational corporations (Hill's Pet Nutrition);
(37) Define "final determination" for purposes of reporting federal tax changes to Kansas (COST);
(38) Limit state tax adjustments following statute-of-limitation expiration to only specific items changed on state returns as a result of federal changes (COST);
(39) Change the individual income tax from a three-bracket system to a uniform "flat" rate (LCC charge)

Comprehensive/General/Other

(40) Repeal most sales tax exemptions, return rate to 5.3 percent, extend the tax to many previously untaxed services, exempt groceries, repeal food sales tax rebate program, repeal corporation income tax, provide over $580 million in individual income tax relief (Senator Kelsey);
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(42) Recommend that the state tax system be maintained at a level to support constitutional requirements regarding "suitable finance" for K-12 schools (KASB);
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(49) Enact legislation naming the Secretary of Commerce as Chair of KTEC, Bioscience Authority, Network Kansas, and Advisory Board of Small Business Development Center; and make a non-voting member of Kansas, Inc. board (Art Hall);

(50) Submit a constitutional amendment requiring a supermajority vote to impose or increase taxes or fees (ALEC);

(51) Maintain sales tax rate at 6.3 percent in 2013 and use additional revenue to phase out the corporation income tax (Kansas Chamber);

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(53) Implement the "ONE TAX" plan that would repeal income taxes, phase out most sales tax exemptions, retain exemptions for business-to-business transactions, pay retailers a collection fee, repeal various taxes for boat registration, new tires, motor vehicle rental, dry cleaning, clean water, private car companies, music and dramatic composition, bingo, transient guest, and combative arts. "Lock" the basic provisions into the state constitution to make it more difficult to return to a capital-based tax system (FairTaxKC);

(54) Enact a "Fair Tax" proposal such as that which is embodied in Missouri Senate Joint Resolution No. 29 (LCC charge);

FairTaxKC
FairTaxKC.org

The Kansas Jobs and Economic Recovery Plan 2011

OVERVIEW – The State of Kansas has a tax system that has evolved over many years, consisting of annual additions, subtractions, modifications, exemptions and rate changes, each of which was viewed as a short-term fix for a particular problem, crisis or populist political issue.

There are now 36 state-level taxes, many with conflicting purposes and results, requiring complex and expensive administrative rulings and audits. The Personal Income Tax is tied to the Federal Income Tax, which is experiencing a dramatic shortfall. The most recent budget legislation resulted in an 18.8% increase in the State sales tax rate, a continuation of large tax exemptions and maintenance of "sin" taxes that are substantially higher than surrounding states. Retail businesses near the Missouri border are seriously hurt by this tax increase.

This antiquated, politicized system can no longer be justified by more short-term rate changes, piecemeal exemptions, modifications, etc. Kansas has a serious budget problem with rising costs of compliance, rising demands for government services, declining revenues and loss of private-sector jobs.

Kansas needs to take a fresh look at a new "clean-sheet-of-paper, start-over-from-scratch," radically simple tax system. This then is a suggested working document of a plan to promote economic growth and prosperity in Kansas. The fundamental concept is that we have ONE TAX that collects income for the state through consumption.

We call this The ONE TAX Plan and it means this.

- Income taxes on individuals and corporations are eliminated.
- Inheritance, Estate and Gift taxes are eliminated.
- Majority of the State's tax revenue are derived from Sales and Excise taxes.
- The revenue lost due to the above are mostly recovered by eliminating the current Sales Tax exemptions.
- The above changes result in a greatly simplified sales tax system which taxes only personally consumed goods and services at retail.
- Business to Business transactions are not taxed.
- The states collect the majority of its revenue from sales tax,
- Every personal consumer pays the same rate.
- Provide a monthly family rebate (prebate) to pay the sales tax up to the poverty level.

The ONE TAX is an idea from a group of dedicated CPAs, business owners and volunteers. Dr Arthur Hall's paper "A Comprehensive Retail Sales Tax as the Single Tax for the State of Kansas" [1] is the road map to recover the economy of Kansas. Dr Hall is the Executive Director of the Center for Applied Economics at the University of Kansas, School of Business. In his paper he describes the basic academic foundation for a revival of the Kansas economy.

How States without Personal Income Taxes Raise Money (Average: 1999-2009)						High Income Tax
Tax Source	Florida	Nevada	South Dakota	Texas	Washington	Kansas
Property	1.1%	2.8%	0.0%	0.0%	11.3%	1.1%
Sales & Excise	77.8%	82.1%	80.3%	78.9%	78.3%	47.6%
License	5.6%	10.6%	13.3%	14.3%	5.1%	4.7%
Income	5.5%	0.0%	4.8%	0.0%	0.0%	43.8%
Other	9.9%	4.5%	1.7%	6.8%	5.3%	2.8%
Taxes per Capita	$1,995	$2,347	$1,564	$1,639	$2,631	$2,292

Note: Growth states derive the majority of their revenue from Sales and Excise taxes. Florida and South Dakota have no personal income tax. The small amount shown is for limited corporate income taxes.[7]

Special Committee on Assessment and Taxation
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Attachment 6

R[illegible] the table above from Dr. Hall.[2] The States that create the most jobs and promote exceptio[illegible] ec[illegible]nic growth do not tax Income. Most of their revenue is raised from Sales and Excise Taxes. Kansas has been going the wrong way. According the Legislative Post Audit Committee [3], "Over the last several decades, Kansas has become much more reliant on income taxes and less reliant on sales taxes to fund State operations." This trend is a major concern to investors because they want a stable and reliable tax system over a long time and Kansas does not appear to be attractive due to its tax system.

The percentage of State revenues provided by income taxes tripled between 1960 and 2009, rising from 15% to 45% of the total. During the same period, the percentage of State revenues from sales and excise taxes declined from 71% to 49%. This reduction occurred even though the States sales tax rate more than doubled from 2.5% in 1960 to 6.3% in 2010.

During this same period, the Sales and Property Tax exemptions have grown to over $4.5 Billion. This is a large percentage of the amount of revenue needed from taxes to properly fund the State. Between 1985 and 2009, the number of Kansas Sales tax exemptions grew from 30 to almost 100, more than triple. Tax exemptions shrink the tax base from which taxes are collected. Perhaps this has something to do with the lack of new business investment and the subsequent very large loss of private sector jobs, estimated to be 50,000 in the last few years.

This idea is referred to as **ONE TAX**.

1. The Income Tax on individuals and businesses would be completely eliminated.
   a. This will provide an immediate stimulus to the local economy.
2. The Inheritance, estate and gift taxes are eliminated.
   a. Private businesses will want to establish their corporate headquarters with their owners residency in Kansas.
3. The sales tax exemptions not protected by the Constitution or statutes will be phased out.
   a. This spreads the tax base to all personal consumers efficiently.
4. All personally consumed new products and services will be taxed at the same sales tax rate.
   a. Business to business transactions will not be taxed eliminating compounding tax on tax.
   b. The state will pay retailers a ¼% collection fee.
5. The tax on boat registration, new tires, motor vehicle rental, dry cleaning and laundry, clean water, private car companies, music dramatic tax, bingo enforcement, transient guest, and combative arts are eliminated. Many of these taxes collect small amounts, cost almost as much to collect and have negative business consequences.
6. Provide a monthly family rebate(prebate) to pay the sales tax at the poverty level.[1]
7. Eliminate the remaining Sales Tax exemptions that are not protected by the Kansas Constitution or statues.

A Constitutional Amendment would lock in the basic provisions making it very difficult to go back to a system which taxes capital rather than consumption. This final act would confirm that Kansas has a stable, reliable tax system where investors and employers know that their return on investment is not a variable from one legislative session to another.

The Kansas Legislature through its Tax and related Committees would research which exemptions to remove first. Many of these exemptions would be redefined not by statue but by falling in the category of business to business transactions.

1. Examples are Agricultural businesses where purchases of farm machinery used in the production of agriculture products currently listed as Public Policy: Agricultural Exemptions. Since these are business to business transactions the tax paid at retail would credited the following period as offsets to business sales.
2. Legally required exemptions include property purchased by a railroad or public utility used for interstate commerce.
3. Examples of Public Policy: Named Organizations such as non-profits, and those receiving targeted tax breaks, would not be taxed on their income but would pay the sales tax on new goods and services purchased at retail.

The following tables are examples of how this might be done however the Tax Committees would make better choices utilizing its access to information in the various State Agencies. **If this could be done in one year it would be even better.**

These numbers are estimates only and will change as more recent figures are available however our experience is that these figures are very close to the current values and they don't change the conclusions or recommendations.

Column 2010 shows the current estimates from the Legislative Division of Post Audit [3]
Column Phase I are those taxes that will be eliminated first.
Column Phase II are those taxes eliminated in the final year.

Tax Collections

Revenues ($Millions)	**2010**	Phase I	Phase II
Individual	2,560.0	2,560.0	0.0
Corporation	245.0	245.0	0.0
Financial Institution	24.0	24.0	0.0
Sub Total	2,829.0	2,829.0	0.0
Retail Sales and Excise			
Retail Sales	1,660.5		
Compensating Use	222.0		
Cigarette	102.0		
Tobacco Products	6.0		
Cereal Malt Beverage	2.2		
Liquor - Gallonage	18.5		
Liquor - Enforcement	57.0		
Liquor - Drinking places	9.5		
Corporate Franchise	26.0		
Severance Gas	47.7		
Severance Oil	54.0		
Sub Total	**2,205.4**	**0.0**	**0.0**
Property Tax Revenues			
Motor Carriers	24.0		24.0
General Property	0.0		0.0
Motor Vehicle	0.0		0.0
Sub Total	**24.0**	**0.0**	**24.0**
Other Tax Revenues			
Insurance Premiums	117.5		117.5
Estate	14.5		14.5
Miscellaneous	2.0		2.0
Sub Total	**134.0**	**0.0**	**134.0**
TOTAL TAXES	**5,192**	**2,829**	**158**

Exemptions (Explanations below the Table)

EXEMPTIONS ($ Millions)	2010	Phase 1	Phase II
Legally Required			
Railroad and Public Utilities	16.1		
Railroad Companies	1.0		
Food Stamp Recipients	7.8		
Welfare Recipients	0.0		
Liquid Petroleum and gas pipeline	0.0		
Purchasers of Aircraft	7.6	7.6	
Sub Total	**32.5**		
Tax Policy			
Agricultural business	171.8	171.8	0.0
Products processed and sold	2,326.8	1,163.4	0.0
Products consumed in production	305.3	152.7	0.0
Motor fuels consumed by Biz	240.7	240.7	0.0
Out of state aircraft and motor vehicles	16.0	16.0	0.0
Sub Total	**3,060.6**	**1,744.6**	**0.0**
Government Exemptions			
Public Broadcasting	Not avail		
KS Insurance Guaranty Association	Not avail		
KS Health Insurance Guaranty Assoc	Not avail		
KS Bioscience Authority	Not avail		
KS Electric Transmission Authority	Not avail		
Federal government rentals	0.1	0.0	0.1
Federal government contractors	5.7	5.7	0.0
Local water districts	0.1	0.0	0.1
State and local government agencies	342.6	171.3	171.3
State and local govt contractors	123.1	61.6	61.6
Sub Total	**471.6**	**238.6**	**233.1**
Agricultural Exemptions			
Biz to Biz Equipment and Services	51.4		
Biz to Biz products used in final sales	1.0		
Sub Total	**52.4**	**0.0**	**0.0**
Business Exemptions			
Oil and gas exporters- Equip consumed	0.4	0.4	0.0
Movie Theaters - shown productions	1.8	1.8	0.0
Customized Software	5.3	5.3	0.0
Qualified biz sub contractors	67.9	67.9	0.0
Property Resellers	119.9	60.0	60.0
Broadcast stations for free public use	1.0	1.0	0.0
Warehouse distribution facilities	6.5	6.5	0.0
Restaurant Employees	3.9	3.9	0.0
Oil and gas exporters-Energy consumed	12.0	12.0	0.0
Sub Total	**218.7**	**158.8**	**60.0**
Charitable, Religious, etc Exemptions	**23.7**	**23.7**	**0.0**
Names Exempt Organizations			
Miscellaneous small amounts	24.4	24.4	0.0
Labor services for exempt organizations	188.2	188.2	0.0
Buyers of new mobile homes	3.4	3.4	0.0
Utility Customers	140.3	140.3	0.0
Sub Total	**356.3**	**356.3**	**0.0**
Educational Institutions	**61.5**		
Named organizations	**8.1**	8.1	0.0
Health Care Exemptions			
RX Drugs	72.8	72.8	0.0
Leases by providers	2.5	2.5	0.0
Miscellaneous small amounts	10.7	10.7	0.0
Sub Total	**86.0**	**86.0**	**0.0**
Exemptions	**4,371**	**2,616**	**293**
Additional Taxes to collect	**0**	**347.1**	**(269.0)**
Tax Rate	6.30%	0.48%	-0.35%
Consumption Base (without the prebate)	35,006	73,718	77,404
Consumption Base (with a prebate of 1.3%)		72,760	76,398
Additional Tax Rate		0.48%	-0.3%
Total New Tax Rate		6.78%	6.43%

Exemptions in column 2010 are the estimates from LPA Report [3]
The figures in column Phase I are those exemption that will be removed first.
The figures in column Phase II are those exemptions that will be removed last.
Below the Sub total line at the bottom of the table are the calculations showing the New Sales Tax Rate before and after each of the transition phases.

Note that in the Phase I, the major sources of Income based revenue are removed and more than replaced with a reduction in Sales tax exemptions for those industries that benefit the most. This results in an increase in the Sales tax rate of only 0.48% yet providing the bulk of the benefits to individual and business income tax payers. This plan gives the most immediate economic stimulus, gives everyone one year to adjust and yet maintains about the same sales tax rate. This calculation allows for a substantial amount of business to business transactions which are not taxed.

During the second phase the benefits really kick in. Removing the second half of exemptions further broadens the tax base and the incremental rate goes down 0.30% bringing the total to 6.43% a very competitive rate compared to other states. All of the personal and business benefits are in place and the sales tax rate is virtually unchanged.

Issues:

1. **Taxing of Professional Services** - Kansas currently taxes 74 different services categories. [5] The only category not taxed is defined as "Professional Services" such as lawyers, doctors, accountants, etc. More states are changing their tax system to include nine "Professional Services". It is frequently misunderstood that Professionals with clients that are other businesses, would not tax these services because they are treated as Business to Business transactions, discussed further below. Professionals actually benefit more from having no income tax to pay, compared to the minor task of collecting tax on their services. The collection would be paid for by the state at ¼%.
2. **Business to Business Transactions are not taxed**. Dr Hall [1] said that a tax on intermediate goods and services in the production of end use goods and services should not be taxed. He explains why this tax on tax would create a "tax pyramiding" effect and should be exempted. This applies to manufactured goods as well as services.
3. **Housing and Real Estate** – The ONE TAX system taxes only new personally consumed products and services. A new house for example would be taxed on the sale but a previously occupied house would be sold without a sales tax. This is consistent and fair for the following reasons.
    a. In today's real estate market the embedded taxes raise the cost of the house about 25%.
    b. A house built before ONE TAX includes the embedded cost all of the cost of the builder such as the costs of tax on labor, on materials and income of the builder. When that house was first sold, the buyer paid the price which included those taxes. Therefore those taxes have already been paid, referred to as "inclusive".
    c. A new house built before this ONE TAX goes into effect, but sold afterward contains those embedded tax costs and the tax would be waived for the first sale of the new house. An inventory would be taken (data is already in the county tax records) and those houses would be known to the buyer, the seller and the register of deeds. **This would instantly stimulate the market for new homes.**
    d. A house built after ONE TAX is in effect, would not have those embedded costs and therefore the inclusive price could be about the same as before the ONE TAX.
    e. **The removal of income taxes on corporations and individuals adds more discretionary spending in the pockets of consumers, which will create a rapid expansion of the housing market.**
    f. Rent would be thought of as a "housing service" and would be taxed each month as if it were purchased each month from a retailer.
4. **Tax Inclusive at the Point of Sale** – The taxes we pay now, (embedded in the cost and price but hidden) are referred to as "Inclusive", i.e. the price includes the tax. The same basis and calculation would be done for the ONE TAX system. The price on the Point of Sale receipt would already include the tax. The only difference is that under the new ONE TAX system the actual tax paid would also be printed on the receipt, not like the present system where the tax is hidden.

- **Prebate** – Designed to overcome the regressive (hurts low income people most) nature of a flat sales tax system. The prebate is a cash benefit for citizens of every household with valid social security numbers. By paying the sales tax up to the poverty level, lower income people are tax free. If the State could take advantage of the power of electronic database and credit card processing, the State might actually receive a substantial benefit that would pay for the entire cost of the prebate administration.

If this could be done in one year it would be most beneficial to everyone and every business. The Tax rate would be lowest, there would be no uncertainty about investment and jobs creation, all of the business could make their procedural changes at one time, and the dramatic increase in discretionary spending would immediately stimulate the economy.

With the majority of the tax reforms in place, a constitutional amendment can lock it in, making it very difficult to change. Investors and employers will find the new Kansas tax code the State very favorable to economic growth and a reasonable return on their investment.

Kansas already has everything else to attract investors, i.e. an outstanding quality of life environment with excellent schools, the nation's top highway and transportation system, energy of all kinds, clean air, water, open spaces, people who want to earn what they have and the best place in the world to raise children and keep families together.

Sources:

[1] "A Comprehensive Retail Sales Tax As A Single Tax for The State of Kansas" By Dr. Arthur P. Hall, Executive Director, Center for Applied Economics, KU School of Business. http://www.business.ku.edu/_pdf/CAE_salestax.pdf

[2] How States without Personal Income Taxes Raise Money is from Dr Hall's presentation to the FairTaxKC organization on August 19th 2010.

[3] KS Legislative Post Audit committee report dated February 2010. http://www.kslegislature.org/postaudit/

[4] Bureau of Economic Analysis, US Department of Commerce, http://www.bea.gov/ (GDP forecast of the Private Sector times 70%).

[5] FTA Survey of Services Taxation – Update, dated July 2008 by Federal Transit Authority of DOT. http://www.taxadmin.org/fta/pub/services/services.html

[6] Federal Tax Administrators, http://www.taxadmin.org/fta/

[7] State Tax Collections By Source, http://www.taxadmin.org/fta/rate/09taxdis.html

Contacts:

Earl Long
913.956.4850
FairTaxKC@EverestKC.net

Lloyd Hanahan
913.897.2770
lbh6221@aol.com

KU SCHOOL OF BUSINESS
The University of Kansas

THE CENTER FOR APPLIED ECONOMICS

Supporting Regional Economic Development through Analysis and Education

A Comprehensive Retail Sales Tax as a Single Tax for the State of Kansas

By Arthur P. Hall, Executive Director, Center for Applied Economics

A well-crafted retail sales tax on all goods and services could replace all 36 other state-level taxes in Kansas—including the personal and corporate income taxes. The tax rate could be eight percent (8%) or less, after the state government makes budget adjustments related to the recent recession-driven revenue shortfalls. Such a bold move holds the promise of making Kansas one of the most growth-oriented state tax environments in the nation (without compromising retail competitiveness along the state's borders). A change of this magnitude would require substantial behavioral and administrative adjustments for everyone, but the technical aspects of such a transition are readily managed if Kansans chose to commit to the goal.

Tax Policy and Economic Growth

Tax policy debates can benefit from an understanding of economic fundamentals. The accumulated complexity of modern tax laws can camouflage a basic principle: Taxation represents a claim the government makes on the monetary value of either current or future production. The only way citizens can pay a tax is to divert current income from some other use or draw down current savings. Current income measures the value of current production. Savings (usually in the form of personal or business investments) measures the value of resources dedicated to future production.

Taxation of the resources used for future production may well lead to less future production—less economic growth. Policy makers should keep two fundamental elements of taxation separate when evaluating tax policy: (1) the dollar amount of taxes collected and (2) the economic efficiency with which each dollar is collected. Each component matters for different economic reasons. The dollar amount of taxes collected relates to the deployment of resources in the public sector versus the private sector, and the relative value added by each sector. The economic efficiency of tax collections is a tax policy design issue independent of how much tax money the public sector claims from the production stream. Some methods of taxation have better efficiency properties than others with regard to the private sector's incentive to produce.

A well-crafted retail sales tax has positive attributes from the perspective of economic growth. It represents one form of a consumption tax, a form familiar to most people. Generally, consumption taxes represent a class of taxes that do not tax money used for saving and investment, regardless of the source of that money. This feature of consumption taxation differs from traditional types of income taxation. Income taxes effectively double tax the money used for saving and investment (but tax only once the money used for consumption), thereby producing a tax bias against saving and investment, which generates a disincentive to dedicate money toward future production.[1] Because saving and investment are key elements of the growth process, consumption taxes can better promote economic growth, all else equal.

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burden, as illustrated in Table 1. Proportionality provides a clear principle for the conduct of tax policy. Each citizen contributes the same proportion of their income to the funding of publicly provided goods and services, based on the amount that each citizen consumes. (Of course, those citizens with more income to spend on consumption pay a larger dollar amount.) Those citizens that save or invest more—meaning those citizens that contribute a larger share of their current income to the promotion of greater future production—defer a portion of their current tax burden into the future when they consume that portion of increased production they helped create.

If Kansans insist on establishing a progressive tax burden (how much progressivity is the "correct" amount?), a tax rebate approach offers a sound method from the perspective of controlling compliance costs and maintaining the integrity of the tax system. The alternative, practiced in many tax jurisdictions in the U.S., is to exempt certain goods and services from tax—typically those defined as "necessities," like food, clothing, and medicine. Exemptions ruin the uniformity feature of a well-crafted comprehensive retail sales tax and require increased recordkeeping and monitoring costs on the part of both the tax authority and sellers of exempt goods and services.

Current Kansas law offers a refund through the income tax code for lower-income citizens that pay sales tax on food. The refund procedure has several restrictions on who can qualify and, in the 2008 tax year, had a tax-filer income limit of $30,300. This approach imposes an administrative cost on the tax authority and those that qualify for a rebate, but not the seller of food.

A more comprehensive rebate program could follow the spirit of current Kansas law related to food sales, but have broader applicability. Assuming that the comprehensive retail sales tax replaced the Kansas income tax, an alternative—but similar—administrative procedure would allow citizens to seek a rebate.

A retail sales tax devised for use by the federal government as a replacement for all other federal taxes (HR 25, 111th Congress, 1st Session) bases its rebate plan on the federal poverty level. As devised in the legislation, all citizens would automatically receive a rebate based on a formula. In brief, the formula multiplies the sales tax rate by the federal poverty level designated for a specified family size. The details of this rebate are discussed below in connection with the derivation of tax rates for a comprehensive retails sales tax.

Table 1 shows the impact a rebate has on taxes paid as a share of income. The rebate generates a progressive tax burden. The rebate has a greater financial impact on the taxes paid by lower-income groups. Consequently, the tax burden as a share of income increases as income increases (assuming the income purchases the end use consumption of goods and service.)

The Economic Importance of Exempting Business-to-Business Transactions

Sound economic policy seeks to minimize the influence of policy on the relative level of prices. Prices that accu-

Table 1

Examples of Tax Burden as a Share of Income

	Taxpayer 1	Taxpayer 2	Taxpayer 3	Taxpayer 4
Gross Income	20,000	100,000	500,000	1,000,000
Income spent on consumption (assume 20% goes toward saving)	16,000	80,000	400,000	800,000
Tax paid with an 8% tax rate	1,280	6,400	32,000	64,000
Taxes as share of Gross Income	6.40%	6.40%	6.40%	6.40%
Hypothetical Rebate on Taxes Paid	1,000	1,000	1,000	1,000
Taxes as a share of Gross Income after rebate	1.40%	5.40%	6.20%	6.30%

rately reflect the market value of goods and services help to direct resource use in a manner consistent with the value consumers place on the goods and services.

A sales tax imposed on intermediate goods and services—the goods and services that work as inputs to the production of end use goods and services—would create false price signals. This outcome would result from the payment of tax upon tax—a process called "tax pyramiding" or "tax cascading."

A growing body of empirical research indicates that the retail sales tax has a strong negative impact on relative economic growth rates among the states.[3] The basic explanation for this finding is that current practices related to the retail sales tax in many states creates a significant amount of distortion in market prices. This distortion can be significantly magnified in the case of business-to-business transactions because of tax pyramiding, and the magnification can take place in unpredictable ways, depending on the details of particular production processes and their interaction with the retail sales tax.

Table 2 offers a hypothetical example of tax pyramiding. The key assumption in the table, which is uncertain in practice, is that the seller has the ability to fully pass on the amount of the sales tax to its customer. The line item labeled "Sales Tax on Sales Tax" demonstrates the tax-pyramiding phenomenon. The greater the number of business-to-business transactions in the production process that must pay the retail sales tax, the more the tax will generate relative-price distortions that negatively influence the growth and efficiency of the economy.

From the end-consumers' perspective, tax pyramiding increases the effective sales tax rate. The assumed statutory tax rate of 8.0 percent results only when the system taxes the economic value added: "Sales Tax on Real Value" divided by the sum of "Value Added" ($104/$1,300). The example of tax pyramiding illustrated in Table 2 results in an effective sales tax rate of 8.64 percent (($104 + $8.28)/$1,300). If the production process had more stages, the effective sales tax rate would increase further, as the tax pyramid grew.

From a business perspective, tax pyramiding can alter business-structure decisions. The above example uses small dollar values. However, given a large enough dollar volume of taxed business-to-business sales, the retail sales (and use) tax system can artificially motivate a firm to vertically integrate in order to minimize its tax exposure; business "transactions" *within* a firm would not be viewed as taxable transactions. Such an outcome would represent a vivid example of a business decision being made solely because of tax policy—a violation of sound economic policy.

Kansas exempts from retail sales tax many business-to-business transactions but not nearly all transactions. The Kansas Department of Revenue, in its 2008 *Annual Report*, provides retail sales tax collections from 98 different industry sectors. Only 12 of the reported sectors—representing about 58 percent of total collections—have a retail designation. It is difficult to know what share of total sales tax collections in Kansas, even from the 12 retail sectors reported, represent business-to-business

Table 2

An Illustration of Tax Pyramiding Using a Tax Rate of 8.0 Percent

	Industry Sector				
Item of Analysis	**Forestry & Logging**	**Wood Product Manufacturing**	**Furniture Manufacturing**	**Home Furnishings Stores**	**End Consumer**
Purchase Price		$1,000.00	$1,180.00	$1,374.40	$1,577.95
Sales Tax on Real Value		80	88	96	104
Sales Tax on Sales Tax		0	6.4	7.55	8.28
Value Added	1,000.00	100	100	100	
Final Sale Price	$1,000.00	$1,180.00	$1,374.40	$1,577.95	$1,690.24

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transactions (e.g., building contractors buy building materials from hardware stores). Calculations by the Center for Applied Economics estimate the Kansas business-to-business share of retail sales tax at about 27 percent (the share of the compensating use tax is closer to 80 percent). Other multi-state studies have placed the business-to-business share of the retail sales tax in Kansas at 33 percent and 44 percent.[4]

Kansas policy can resolve the tax pyramiding problem in two ways: (1) exempt certain transactions from sales tax at the point of purchase or (2) rebate the tax paid on certain purchases. Current law relies on the exemption-on-sale approach. Qualified purchasers present an exemption certificate to sellers. For a comprehensive retail sales tax, the rebate approach may represent a better overall method. All transactions would pay tax but qualifying purchases would receive a rebate upon proper application.

The rebate approach to the tax pyramiding problem relieves sellers of goods and services from the costs associated with tracking exempt sales from non-exempt sales (and policing illegal behavior related to tax evasion). True, collecting tax to rebate it seems like wasteful activity. However, the rebate approach puts the tax authority in charge of policing tax compliance. To claim a rebate, businesses would need to authenticate their legal status and, upon audit, present invoices for rebates claimed. With today's technology, the system could be

Table 3

Estimated Tax Base and Tax Rates for a Comprehensive Retail Sales Tax
(Dollars in Billions)

Year	**2000**	**2004**	**2008**
Revenue to Replace (from Table 4)	$4.9	$5.5	$7.2
Estimated Revenue-Neutral Tax Rate	8.05%	8.43%	8.69%
Derivation of Tax Base (a)			
Wages and Salaries	$41.3	$45.8	$57.5
Estimated Taxable Employment Benefits (b)	2.7	4.1	4.9
Farm Proprietors' Income	0.3	0.5	0.4
Nonfarm Proprietors' Income	5.7	7.6	9.9
Dividend Income	3.5	4.7	6.5
Interest Income	5.7	4.3	6.5
Capital Gains (c)	3.4	2.3	3.1
Government Transfer Payments	9.6	12.0	15.5
Total Spendable Income	72.2	81.4	104.3
Less: Estimated Saving or Untaxed Spending (d)	16.7	23.1	29.6
Plus: Estimated Taxable Rent (e)	1.5	1.7	2.0
Plus: Appraised Value of Owner-Occupied Homes ÷ 15 (f)	5.1	6.6	8.4
Estimated Gross Tax Base	62.1	66.7	85.1
Less: Estimated Automatic Family Rebate	1.6	1.8	2.3
Estimated Net Tax Base	60.6	64.8	82.8

(a) Unless otherwise specified, data comes from the U.S. Bureau of Economic Analysis.
(b) Primarily insurance premiums.
(c) Capital gains figure for 2008 equals the average from 2004 through 2007.
(d) Estimates derive from (1) Consumer Expenditure Survey ratio of total consumption expenditures (less tuition and rent) divided by before-tax income and (2) Kansas-specific Internal Revenue Service data for charitable contributions as a share of income. To create conservative estimates, no attempt is made to estimate the share of charitable contributions that will re-enter into the Kansas taxable spending stream. Tuition and charitable contributions are not taxed. Saving and investment is not taxed.
(e) U.S. Census Bureau—American Community Survey.
(f) Data source: Kansas Department of Revenue. Using the 30-year mortgage convention, the tax is assumed to spread over 15 years in equal payments as a simple way to split the time value of money between the taxpayer and the state government.

Table 4

Sources of Kansas Tax Revenue
(Dollars in Millions)

Year	2000	2004	2008
Property Taxes (excluding K-12 education funding)			
Educational Building	19.8	24.1	30.2
Institutional Building	9.9	12.0	15.1
State General	0.0	13.7	0.0
Mortgage Registration	0.8	1.1	1.1
Motor Carrier	16.1	19.5	29.0
Various Vehicle	3.8	4.4	4.8
Income and Priviledge Taxes			
Individual	1861.6	1899.3	2944.9
Corporation	250.1	141.2	432.1
Financial Institutions	22.3	25.4	33.2
Inheritance/Estate Tax	62.9	48.1	44.2
Sales, Use, Excise Taxes			
Retail Sales	1520.4	1706.7	1983.6
Compensating Use	223.4	225.2	281.2
Motor Fuels	358.6	423.9	431.3
Vehicle Registration	138.7	157.3	168.8
Ceral Malt Beverage	2.4	2.2	2.2
Liquor Gallonage	15.1	16.6	18.5
Liquor Enforcement	33.3	40.3	50.0
Liquor Drink	22.6	28.5	35.7
Cigarette	49.1	119.8	112.7
Tobacco Products	3.8	4.8	5.5
Corporate Franchise	16.8	36.8	46.7
Boat registration	0.6	0.8	1.0
Severance	57.0	91.0	159.3
New Tires	1.4	0.7	0.7
Motor Vehicle Rental	2.5	2.6	3.4
Dry Cleaning & Laundary	1.2	1.3	1.2
Clean Water	0.0	2.7	3.2
Insurance Premium Taxes			
Foreign Compamies	49.9	89.5	102.8
Domestic Companies	8.9	18.5	15.8
Firefighter Relief	5.2	8.4	9.4
Fire Marshall	3.6	5.5	5.9
Other Taxes			
Private Car Companies	0.9	0.7	0.9
Music Dramatic Tax	0.0	0.0	0.0
Bingo Enforcement	0.9	0.7	0.5
Transient Guest	0.3	0.4	0.6
Parimutual	4.2	3.5	1.9
Illigal Drugs	1.5	0.7	1.2
Combative Arts	0.0	0.0	0.1
Unemployment Compensation Taxes	107.7	282.6	223.3
TOTAL	4877.5	5460.4	7201.9

Source: Kansas Tax Facts, Kansas Legislative Research Department

Web-based and rely on electronic fund transfers. Properly designed, the rebate procedure could become a relatively simple routine for small business owners and business accountants.

Charitable and Nonprofit Activity

Kansas hosts approximately 11,000 public charities receiving revenues totaling almost $10 billion.[5] Approximately 90 percent of the revenue is paid out as expenses.

The bulk of the expenses probably represent wages and salaries and pro bono service activities, although exact details are unavailable. The wages and salaries paid by public charities would be subject to tax through a comprehensive retail sales tax as the employees spent their pay on goods and services.

Other expenses incurred by the expenditures of public charities may well represent end use consumption. In concept, such consumption should share in the Kansas tax burden. South Dakota, a state with one of the most comprehensive retail sales tax regimes, does not exempt purchases made by churches, membership organizations (like YMCAs, Boy Scouts, Jaycees, or Rotary Clubs), and civic and nonprofit organizations.

The basic tax design rules listed above place no sales tax on contributions made to nonprofit organizations or goods and services delivered at a zero price. In this context, a membership organization—like a YMCA—may operate like a business in that it uses business-like inputs to produce a valuable service, but it does not charge a price in the conventional sense of a retail transaction. By not exempting (rebating) the tax paid on the purchase of inputs used by charitable, membership, or nonprofit organizations, the end use consumption of the service also shares in the consumption tax burden.

Naturally, Kansans may prefer to exempt charitable organizations from tax despite the logic to include them suggested by a comprehensive retail sales tax regime. The cost of this preference would be a higher tax rate. From an administrative perspective, to the extent that Kansas policy exempts from tax the purchases made by charitable organizations, the most cost-effective approach would follow the same procedures used to rebate the tax paid on business inputs, as outlined above.

Derivation of Tax Rates

Table 3 uses historical data for three different years to estimate the size the of the tax base for a comprehensive retail sales tax and the revenue-neutral tax rates needed to meet all actual state-level tax revenue collections in the select years. Table 4 provides the list of tax revenues to replace. Note that the list excludes the state-level property tax dedicated to public school funding. The tax rates for the years 2000, 2004, and 2008 are, respectively: 8.05 percent, 8.43 percent, and 8.69 percent.

Table 5

Alternative Tax Rate Scenarios

	Alternative Tax Rates			Alternative Tax Rates less 5.3%		
Alternative Scenario	**2000**	**2004**	**2008**	**2000**	**2004**	**2008**
Revenue-Neutral Rates from Table 3	8.05%	8.43%	8.69%	2.75%	3.13%	3.39%
No Automatic Family Rebate	7.85%	8.19%	8.46%	2.55%	2.89%	3.16%
Automatic Family Rebated Limited to Incomes of $50,000 or Less	7.97%	8.33%	8.59%	2.67%	3.03%	3.29%
Replace Income Tax & Current Sales/Use Tax Only (full rebate)	6.33%	6.08%	6.77%	1.03%	0.78%	1.47%
Replace Income Tax & Current Sales/Use Tax Only; but No Tax on Rent or Housing (full rebate)	7.12%	7.00%	7.76%	1.82%	1.70%	2.46%
No Tax on Rent or Housing (full rebate)	9.07%	9.73%	9.99%	3.77%	4.43%	4.69%
Tax on Rent and only Newly Sold Houses ÷ 15 (full rebate)*	8.76%	9.31%	9.63%	3.46%	4.01%	4.33%

* National Association of Realtors (existing home sales); U.S. Census Bureau (estimated new home sales, using national ratio of: new sales to existing sales). Average state home price data comes from ratio study of Kansas Department of Revenue, based on a population-weighted average of county-level sales price samples.

The variation in Kansas income tax collections primarily drives the variation in the revenue-neutral tax rates. In the year 2004, inflation-adjusted income tax collections—especially corporate income tax collections—per Kansas job were meaningfully lower than the other two years. Sales tax collections on a per-job basis were higher in 2004. Twenty-seven other taxes were also higher on a per-job basis in 2004, but these smaller taxes amounted to about 21 percent of state revenue collections.

Each element in Table 3 has a straightforward interpretation except the "Automatic Family Rebate." The policy intent of this rebate is to assure that no family (or household) pays comprehensive retail sales tax on "essential" goods and services.

The mechanics of the rebate follow the one devised for a federal plan for a comprehensive sales tax (HR 25, 111th Congress, 1st Session), since the details are readily available. As used in the calculations for Table 3, every Kansas family (one or more family members sharing a common residence) would receive a rebate of the sales tax on consumption spending equal to the federal poverty level. The family would need to register with the tax authority to receive allowable rebates.

Each year, the U.S. Department of Health and Human Services designates the official poverty level for families of different sizes. HR 25 designed the rebate procedure to eliminate any penalty for marriage related to the official designation. To do that, it treats each spouse as a household of one and then subtracts from that poverty-level designation the poverty-level designation for a family of two. For example, if the annual poverty level for a family of one equaled \$10,000 and the annual poverty level for a family of two equaled \$13,000, the annual "marriage penalty elimination amount" would equal:

Table 6

Simulations of Growth of Select Economic Variables from Replacing All State-Level Taxes with a Comprehensive Retail Sales Tax

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Immediate Replacement:						
Private-Sector Employment	8.85%	8.80%	8.74%	8.68%	8.63%	8.57%
Private-Sector Investment	3.37	3.72	3.72	3.71	3.71	3.70
Take-Home Pay per Capita	2.94	2.92	2.90	2.88	2.87	2.85
Four-Year Phase-in:						
Private-Sector Employment	2.16	4.33	6.50	8.69	8.64	8.58
Private-Sector Investment	0.88	1.78	2.73	3.73	3.72	3.72
Take-Home Pay per Capita	0.78	1.53	2.25	2.92	2.90	2.89

Table 7

Simulations of the Growth of Select Economic Variables from Replacing Personal and Corporate Income Taxes with a Comprehensive Retail Sales Tax

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Immediate Replacement:						
Private-Sector Employment	6.93%	6.91%	6.88%	6.85%	6.81%	6.79%
Private-Sector Investment	3.10	3.11	3.13	3.14	3.15	3.16
Take-Home Pay per Capita	0.71	0.72	0.73	0.74	0.75	0.77
Four-Year Phase-in:						
Private-Sector Employment	1.72	3.43	5.14	6.84	6.81	6.78
Private-Sector Investment	0.78	1.55	2.34	3.13	3.14	3.15
Take-Home Pay per Capita	0.23	0.43	0.60	0.73	0.75	0.76

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$20,000 - $13,000 = $7,000. The "marriage penalty elimination amount" of $7,000 is added to the published poverty level amount for a family of a specified size. Consequently, if the federal poverty level for a family of four equaled $22,000 and the Kansas comprehensive retail sales tax rate equaled eight percent (8%), the annual automatic family rebate (for a married couple) would equal: $22,000 + $7,000 = $29,000 x 0.08 = $2,320.

Table 5 provides a comparison of comprehensive retail sales tax rates under alternative design scenarios. For convenience, the table also provides the difference from the current Kansas retail sales and use tax rate of 5.3 percent.

Table 5 illustrates three noteworthy points. First, providing the automatic family rebate to all families instead of a smaller group of families with lower income does not alter the tax rate substantially. If the administrative costs of the rebate system increase from both the taxpayer and tax authority perspective by limiting the rebate to select families, it may make sense to provide it to all families. Second, the taxation of rented and owner-occupied housing substantially reduces the level of the tax rate. The novelty (and probable unpopularity) of applying the retails sales tax to rented and owner-occupied housing must be traded off against the higher rates and the elimination of all other state-level taxes. Third, if Kansans want to replace just the Kansas income tax system and the current sales tax with a comprehensive retail sales tax, the rate change is relatively small, with the taxation of rented and owner-occupied housing once again making a substantial difference in the level of the tax rate.

Economic Growth Dynamics

Tax reform of the magnitude defined by moving to a comprehensive retail sales tax as the single state tax will involve substantial political commitment and costly economic adjustments for the entire population of Kansas. One compelling reason for undertaking such a commitment is to reap the benefits of superior long-run economic performance of the Kansas economy, and the positive impact that will have on the citizens of Kansas. Economic simulation of the growth dynamics suggest that the major tax reform described by a comprehensive retail sales tax can help deliver superior economic performance. Table 6 and Table 7 illustrate the simulated economic performance results of two scenarios—a scenario in which a comprehensive retail sales/use tax replaces all taxes shown in Table 4 and a scenario in which a retail sales/use (using the comprehensive tax base) replaces the personal and corporate income tax and the current sales/use tax. Each scenario, in turn, shows an immediate switch and a four-year phase-in executed in equal parts for each of the four years (25 percent per year).

Simulations offer mere representations of reality used to acquire intuition about the effects of numerous and complicated interactive forces. One should not interpret simulations as forecasts. The computer model used to generate the simulations for Kansas in Table 6 and Table 7 attempts to provide intuition about how select economic variables will change when the impact of taxation on those variables changes.[6] A properly-implemented comprehensive retail sales tax would (1) eliminate all business-level tax payments, (2) eliminate the need for businesses to compensate individuals for the income tax on wages, and (3) remove the income tax bias against saving and investment. The result of this change in the structure of taxation, according to the simulation, would be a permanent increase in the growth path of private-sector employment and investment, as well as take home pay for Kansans.

Table 6 shows that an immediate shift to a comprehensive retail sales tax as a single tax has the potential to increase (above the level under the current tax structure) private-sector employment by almost nine percent, private investment by almost four percent, and take-home pay by almost three percent. The best way to think about this change is as a shift upward in the growth path of these three economic variables. The change in tax structure makes a larger amount of economic activity viable. Because economic growth works in a manner similar to the mechanics of compound interest, the larger base of economic activity made possible by the new tax structure will help accelerate the growth of the overall size of

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the Kansas economy. A phase-in on the new tax structure will have the same results once fully phased-in. The fully phased-in, revenue-neutral sales tax rate for the simulations in Table 6 is 8.35 percent (excluding the family rebate), quite close to the 2008 estimate of 8.69 percent reported in Table 5, which does not stimulate economic growth effects.

The simulation data in Table 7 has the same interpretations as those in Table 6. The effects are somewhat smaller because the simulation assumes that only personal and corporate income taxes (and the current sales/use tax) are replaced by the comprehensive retail sales/use tax. The fully phased-in, revenue-neutral sales tax rate for the simulations in Table 7 is 5.60 percent (excluding the family rebate). The 2008 rate of 6.77 percent reported in Table 5 includes the family rebate.

An important part of the simulation exercise not reported here relates to the tax revenues of local government in Kansas. The state-level tax change creates a substantial (simulated) increase in local government tax revenues. Changes in property taxes and other miscellaneous taxes and fees result indirectly from the surge in economic activity created by the change in state policy. But local sales tax collections change as a direct result of the change in state policy. Local governments piggyback on the state-defined sales tax base. Since the comprehensive retail sales tax substantially broadens the state sales tax base, local governments come along for the ride. For reasons related to cross-border shopping, Kansans may want to assure that local government sales tax rates adjust downward to be revenue neutral with regard to the expanded sales tax base.

A Comprehensive Retail Sales Tax and Cross-Border Shopping

A comprehensive retail sales (and use) tax in Kansas will work only if the combined state and local tax rates remain low enough to prevent a "substantial" amount of Kansans from having an incentive to cross the state line to shop for goods and services. About 40 percent of the Kansas population lives in counties that border a neighboring state. Counties on the border with Missouri account for about 32 percent of the state population—with counties considered to be part of the Kansas City metropolitan area accounting for 28.5 percent of the population. The eastern half of the border with Oklahoma (from Sumner County eastward) accounts for almost 5 percent of the Kansas population.

Implementation of a comprehensive retail sales tax as a single tax (using the state rates offered in this report) would keep Kansas competitive at the borders, especially since Kansas would impose no other taxes. Along most regions of the Missouri border and the eastern half of the Oklahoma border, combined state and local sales tax rates in Kansas are generally lower by a quarter to a full percentage point. (The border with southern Missouri is the most common exception, where rates are more equal.) A comprehensive retail sales tax—with local rates adjusted downward by about 45 to 50 percent to accommodate the broader tax base—would reverse the current situation, all else equal.

However, all else will not be equal. Kansas residents will no longer pay any other tax and businesses will operate tax-free. The key to Kansas competitiveness in the context of cross-border shopping is not the level of sales tax rates per se, but the final sales price of goods and services. Without any other taxes to pay (either directly or indirectly), the tax-related cost structure of Kansas businesses should allow for vigorous cross-border competition while maintaining profitability.

Endnotes

1 For a more in-depth discussion of this point, see Arthur P. Hall, "Competing Concepts of Income and the Double Taxation of Saving," Technical Report 05-0926, Center for Applied Economics, University of Kansas School of Business, September 2005.

2 For more information, see: http://www.streamlinedsalestax.org/

3 See, for example, W. Mark Crain, *Volatiles States: Institutions, Policy, and the Performance of the American States* (Ann Arbor: The University of Michigan Press, 2003), Chapters 4 and 5, and the citations therein.

4 Respectively, Raymond J. Ring, Jr., "Consumers' Share and Producers' Share of the General Sales Tax," *National Tax Journal*, Vol. 52 (1), March 1999, pp. 79-90 and Robert Cline, et al., "Sales Taxation of Business Inputs: Existing Tax Distortions and the Consequences of Extending the Sales Tax to Business Services," Council on State Taxation, January 25, 2005.

5 National Center for Charitable Statistics. http://nccs.urban.org/statistics/profiles.cfm

6 The model used is a so called computable general equilibrium model developed for the state of Kansas by the Beacon Hill Institute at Suffolk University in Boston, Massachusetts. For more information, see: http://www.beaconhill.org/STAMP_Web_Brochure/STAMP_IntroductionMS.html

KU
THE UNIVERSITY OF
KANSAS

Center for Applied Economics
University of Kansas School of Business
Summerfield Hall, 1300 Sunnyside Avenue
Lawrence, KS 66045-7585
www.cae.business.ku.edu
(785) 864-5134

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Senator Dick Kelsey – 11/12/10

Comprehensive Tax Equity Plan

Purpose:

A. To restore fairness to our tax system – right now many people pay when others don't who do the same thing.
B. To bring our tax system into the modern times – many parts of our tax system were designed 80 years ago or more and have not kept up with the times.
C. Provide a more stable source of revenue for the state.
D. Create a more positive tax environment for businesses to grow and develop.

Primary Pillars of the proposal:

1. Eliminate the sales tax on food. This would apply to unprepared food purchased in a grocery store – not restaurant food. Over 31 states currently exempt food from sales tax.
2. Eliminate the corporate income tax. This tax varies dramatically with the economy and is an unstable source of tax revenue. Eliminating this tax would help us draw business to the state.
3. Reduce the individual income tax. This helps every wage earner. This would hopefully put us on a path of eventual elimination of the income tax as has been done by Texas, Florida and other states. The proposal currently being drafted would reduce the income tax by about 15 percent across the board.
4. Reduce the state sales tax rate by 1.0 percent. This would make our sales tax rate more in line with surrounding states and save every Kansan money.
5. Eliminate most of the existing sales tax exemptions that were put into the law over the years as a favor to a particular group. Exemptions should apply to all people involved in a given activity not just a particular organization. If the legislature wants to exempt an entire category of activity they could certainly do so during the debate. The proposal as being drawn up would keep the exemption for farm equipment and business machinery used in the manufacture of products.

6. Apply the sales tax to services fairly instead of the current system of exempting some services and others paying. Health care would continue to be exempt along with prescription drugs. The principle that will be set forth in this legislation is that a service will be taxed unless specifically exempted instead of the current approach of only taxing those services listed by law. This is the same principle we use in taxing goods. When the sales tax system was started in the 1930s most of our income was spent on "things". Now most of our income is spent on services which are not taxed which has seriously eroded our sales tax base. The compensating use tax would be applied so that businesses located near a state border would not be disadvantaged.

Other principles being applied in the writing of this legislation:

1. The overall proposal is designed to be revenue neutral.
2. The proposal would take effect January 1, 2012 to allow business more time to prepare for the changes.
3. The sales tax will not apply to component parts – it is not a value added tax.
4. The proposal is in the drafting stage. When the initial draft is ready, all legislators will be given a copy and copies will be available to the public.
5. The overall principle that will be used in the drafting is "what is fair to all and what will contribute to a positive tax environment in or state.