SB 546 Proponent Testimony – in person
Reduce corporate tax rates, eliminate certain tax subsidies
Senate Assessment &Taxation Committee
Dave Trabert, CEO
March 19, 2024

Madam Chairwoman and Members of the Committee,

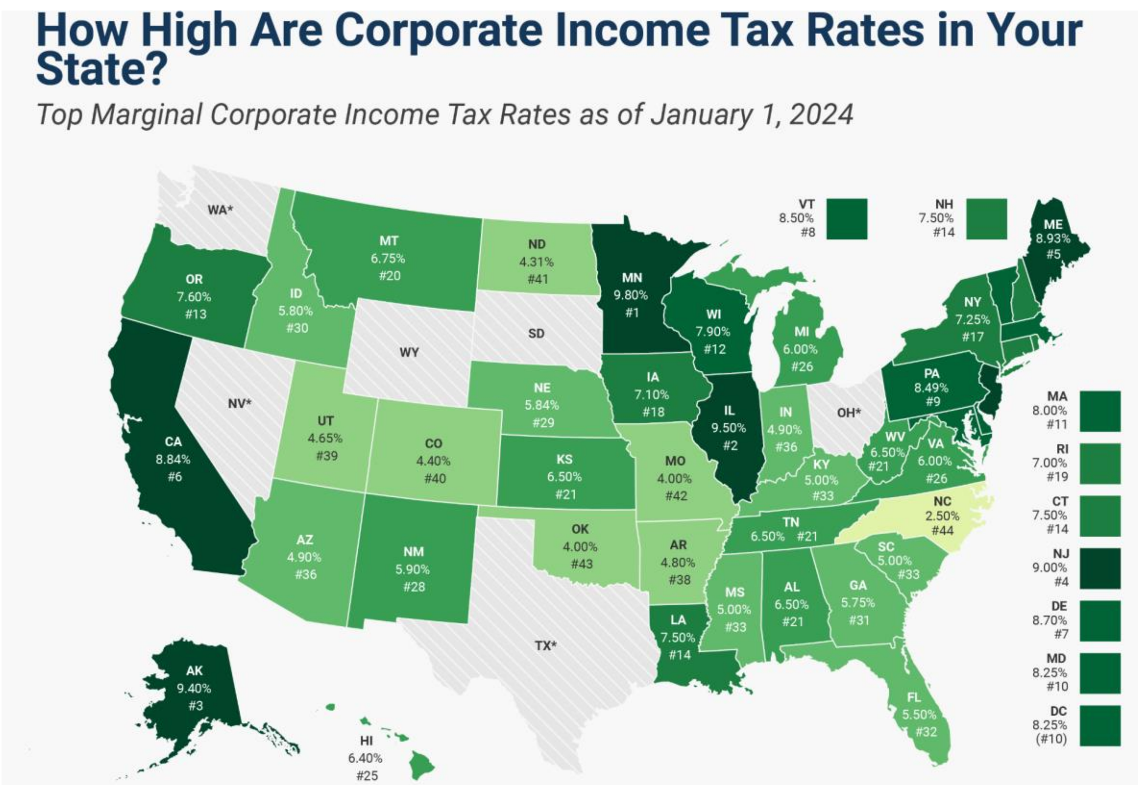
We are pleased to present testimony in support of SB 546, which reduces corporate income tax rates and eliminates certain tax subsidies.

Our testimony is organized into five sections:

1. Kansas has a high corporate income tax rate compared to other states.
2. Corporate rate reductions generate the most economic benefit to the economy.
3. States with low overall tax burdens have superior economic growth.
4. Kansas is in its fifth straight decade of economic stagnation.
5. Research shows that tax subsidy programs don't work for the economy or taxpayers.

Kansas has a high corporate income tax rate relative to other states

According to the Tax Foundation, Kansas has the 21st highest corporate rate at 6.5%. Each neighboring state has a much lower rate, including Missouri and Oklahoma, at 4%.



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Corporate rate reductions generate the most economic benefit to the state

A research paper published by the Economic Research Center at The Buckeye Institute and Kansas Policy Institute used Buckeye's STELA (state tax and economic long-run analysis) model to compare the economic impact of a $500 million tax cut in corporate income tax, the personal income tax, and state sales tax. STELA can be calibrated to each state's economy.

The STELA model says a $500 million reduction in corporate income tax would generate $550 million in economic growth for the state and prompt $360 million in business investment.

Economic Impact to Kansas of a $500 Million Tax Cut		
Type of Tax Cut	Economic Growth	Business Investment
Corporate Income Tax	$550 Million	$360 Million
Personal Income Tax	$430 Million	$240 Million
Sales Tax	$160 Million	$50 Million

Source: Reforming Kansas Tax Policy, Economic Research Center at The Buckeye Institute and Kansas Policy Institute, 2023

A personal income tax cut of the same size would produce $430 million in economic growth and $240 million in business investment, and a sales tax cut would generate $160 million and $50 million, respectively.

We didn't model a property tax cut in STELA.

States with low overall tax burdens have superior economic growth

Research from Kansas Policy Institute's 2023 Green Book shows that states with lower tax burdens have superior economic growth.

For example, states without an income tax had a 57% increase in private-sector jobs between 1998 and 2021, compared to just 25% for the states without an income tax. We also compared the ten states with the highest and lowest combined tax burden as identified by the Tax Foundation. The lower-burden states won again, 42% vs. 27%.

States with Lower Tax Burdens Have Superior Growth					
Description	Kansas	State Income Tax		State + Local Tax Burden	
		No	Yes	10 Lowest	10 Highest
Private Job Growth 1998-2021	13%	57%	25%	42%	27%
GDP Growth 1998-2021	148%	207%	150%	172%	160%
Domestic Migration 2000-2022	**-192,918**	7.4 M	**-7.4 M**	4.2 M	**- 10 M**

Source: BEA, Census, Tax Foundation

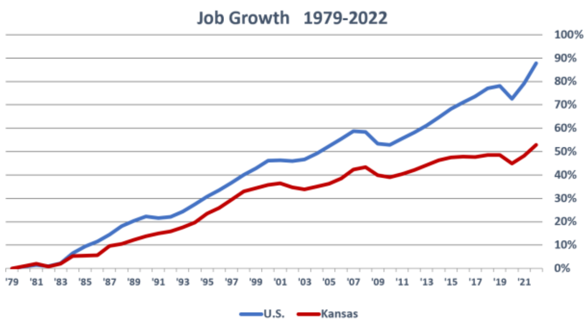
The data on private GDP growth is similar.

We also looked at people 'voting with their feet' with comparisons of domestic migration. The states without an income tax gained 7.4 million people, leaving states with an income tax. The lowest-burden states also prevailed over the highest-burden states, with a 4.2 million net gain in domestic migration versus a 10 million net loss.

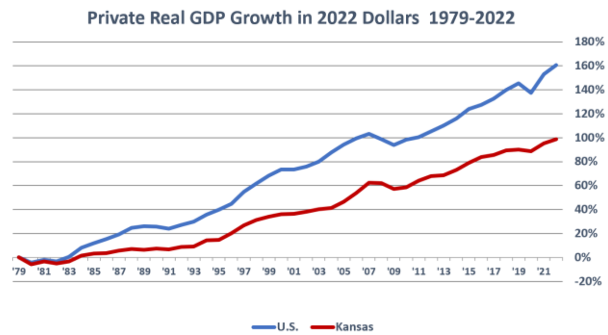
At the same time, Kansas only had 13% private-sector job growth, a 148% increase in GDP, and a net loss of almost 193,000 people due to domestic migration.

Kansas is in its fifth straight decade of economic stagnation

The State of Kansas was keeping up with the rest of the nation in private-sector real GDP and job growth in the early 1980s, but Kansas started falling behind mid-decade, and the gaps have worsened. The lag in private-sector job growth is especially pronounced since the largest tax increase in state history was imposed in 2017.



Source: Bureau of Economic Analysis



Source: Bureau of Economic Analysis; Minneapolis Federal Reserve

To put the gaps in perspective, there would have 451,000 more jobs and $57.6 billion more private-sector GDP in Kansas in 2022 had the state kept pace with national growth since 1979.

Research shows that tax subsidies don't work for the economy or taxpayers

Five straight decades of economic stagnation is a pretty good indication that tax subsidy programs have not been effective, and that is backed up by research.

A 2017 analysis by Nathan Jensen, then with Washington University at St. Louis and now with the University of Texas at Austin, found that there was little evidence that Kansas PEAK (Promoting Employment Across Kansas) recipients were no more likely to add jobs than non-peak recipients.

According to the Kansas City Star, "Jensen has since authored the book, "Incentives to Pander," exploring why politicians frequently over-incentivize business development. Generally, academic research has found that at least 75% of companies awarded incentives would have made a similar investment regardless of the public subsidy, he said. Jensen says academics have long cited the border war here as a prime example of wasteful use of government incentives."

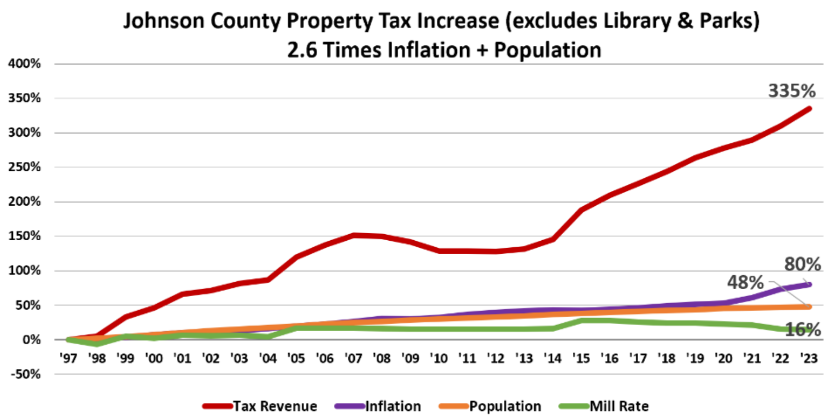
Dr. Arthur Hall, Executive Director of the Brandmeyer Center for Applied Economics at the University of Kansas, examined STAR bond projects in Wichita in a study sponsored by Kansas Policy Institute. He concluded that the projects merely shifted economic activity from one part of the city to another.

Subsidies benefit the few recipients and the elected officials who promote them, but they often come at the expense of others. Retailers in one part of a city lose business when economic activity is shifted to another part of the city, for example.

Property tax data shows that taxpayers have not benefitted, either.

Johnson County, for example, increased property tax by 335% since 1997, which is 2.6 times the combined rates of inflation (80%) and population (48%). The excess above inflation + population is much worse if tax increases for libraries and parks are included.

Other counties that favor tax subsidies and have excessive property tax increases include Douglas (4.7 times inflation + population), Riley (3.6 times), Saline (4.5 times), Sedgwick (1.6 times), and Wyandotte (3.4 times).



Source: Kansas Dept. of Revenue, Census, BLS Consumer Price Index, Midwest Urban Cities. Excludes cities, schools and other jurisdictions within the county.

The Kansas Department of Commerce often attributes business capital investments to state incentive programs, but it will not – or cannot – substantiate such claims.

Kansas Policy Institute and our media outlet, The Sentinel, have repeatedly sent Open Records requests to Commerce for documentation, but replies indicate no such records exist. In 2019, we requested reports done internally or contracted out since January 2017 examining the efficacy of Promoting Employment Across Kansas (PEAK), TIF, STAR bonds, and the High-Performance Incentive Program (HPIP). Ryan Brinker, the Public Information Officer for the Kansas Department of Commerce, replied, "We are currently working to identify and review any records which may be responsive to your request and will need additional time to complete that review. The earliest date records may be available to you is November 26, 2019." There's been no further response to this request.

Conclusion

Research and history show that Kansas taxpayers and the state's economy have long suffered while taxes remain high and tax subsidy programs have been the predominant government strategy for economic development.

Reducing the tax burden on people and businesses, on the other hand, is a proven method that benefits everyone.

We encourage the Committee to approve SB 546, and we appreciate your consideration.